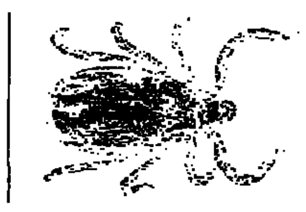
FINANCIAL TIMES

Trade with the US

Peace talks enter the final phase

Guy de Jonquières, Page 10



Lyme disease

Attack of the killer tick

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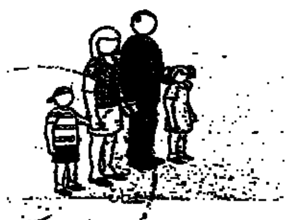


Family disintegration

State should not egg on the unstoppable trend

Martin Wolf, Page 16

Standing stone

"Get back to where you once belonged"

Arts, Page 15

World Business Newspaper http://www.FT.com

TUESDAY OCTOBER 14 1997

Bob Ratliff Chairman of Agco

'Once the industry matures and growth begins to flatten out, vertical integration is not where you want to be'

Part five: In tomorrow's FT

Markets surge on corporate deals

Shares sharply up as companies begin restructuring ahead of monetary union

By Philip Coggan in London

It was manic Monday on European stock markets yesterday as a flurry of corporate bids and mergers carried share prices sharply higher, on evidence that continental businesses were starting to restructure themselves ahead of the first wave of economic and monetary union in 1999.

On top of the talks to combine the insurance interests of BAT Industries and Zurich group, announced over the weekend, four new substantial deals were revealed yesterday.

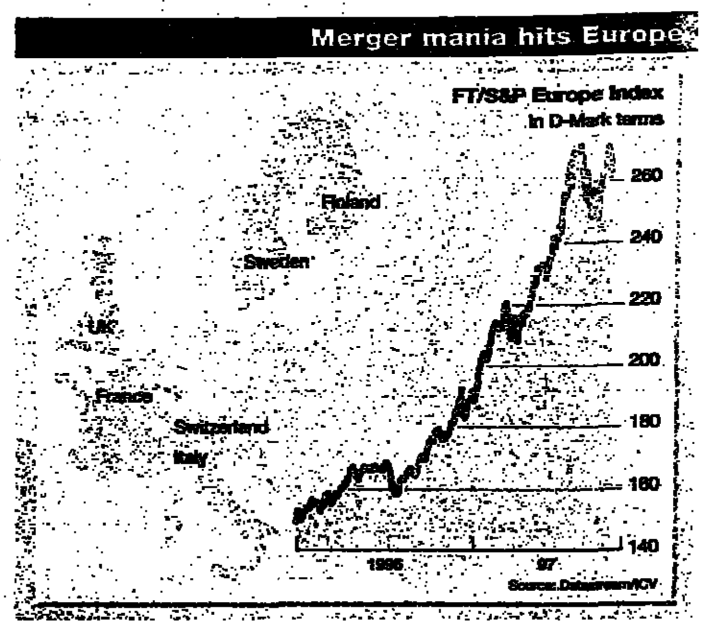
Shares in many of the participating companies raced ahead, while the broad markets were carried higher as investors speculated on the next takeover candidates and looked forward to the effect of restructuring on corporate profits across the Continent.

In London, the FTSE 100 index, boosted by the Reed Elsevier merger with fellow publisher Wolters Kluwer and the hostile bid for building materials group Redland from the French cement maker Lafarge, rose 72.8 to 5,300.1.

The bid by the Italian group Generali for the French insurer AGF helped the CAC 40 in Paris rise 1.6 per cent while the merger between Nordbanken of Sweden and Merita of Finland helped the Helsinki bourse gain 1.7 per cent.

Analysts stressed that this was an ideal time for European industry to make deals. Barriers to cross-border takeovers were falling and with stock markets close to record highs, companies were well placed to offer their shares as consideration (many of yesterday's deals were paper-based). The Lazard group of companies is involved in advising protagonists in all five deals.

The case for European industry to restructure seems to have been given a further kick by the approach of a single currency.



"When you start to hypothesise a merged European economy or stock markets, some industries look pretty fragmented on a Europe-wide basis," said Mark Howdle, European strategist at UBS.

This was particularly true in areas such as banking and insurance, which has already seen deals such as the takeover of Winterthur by Credit Suisse.

Mr Howdle pointed out that the financial services sector would probably be easier to restructure, in the face of public opinion, than a blue-collar industry.

"It is still more emotive to lay off a Belgian car worker than a French bank clerk," he said.

WORLD NEWS

Nato will not turn its back on Bosnia, says Solana

Nato will not turn its back on Bosnia, the defence alliance's secretary-general Javier Solana pledged yesterday in a speech to MPs from Nato's 16 countries. US Congress has been promised that US troops in the Bosnia stabilisation Force will be withdrawn by next June, and other Nato allies are under pressure to pull out at the same time. Page 4

Chief quits after jobs row
Jean Gandois, who opposed French government plans to cut the working week, quit as president of the country's main employers' organisation. Page 2

Greece accuses Turkey
Greece said Turkish jet fighters buzzed a military transport aircraft taking Greek defence minister Akis Tsohatzopoulos to the divided island of Cyprus. Page 4

Italy's crisis eases
Italy's communist leader Fausto Bertinotti said his hard-left party would support prime minister Romano Prodi's 1998 budget, effectively ending the country's political crisis. Page 2

Protestants jeer Blair
Angry Protestants jostled and jeered British prime minister Tony Blair in Northern Ireland after his historic handshake with Gerry Adams, president of Sinn Féin. Page 11

Kohl calls for party unity
Christian Democrats rallied behind their leader Helmut Kohl after the German chancellor told them they faced a particularly tough election campaign. Page 2

Coke chief on critical list
Coca-Cola chief executive Roberto C. Goizueta, is critically ill after developing an infection while being treated for cancer. Page 19

US-Venezuela drugs pact
US president Bill Clinton ended his Venezuela visit by signing deals aimed at stepping up co-operation in the war against illegal drugs. Page 6

High winds hinder launch
Strong winds and computer problems delayed the launch of the US Saturn probe, Cassini, which is powered by 72lbs of plutonium. Page 5

Zimbabwe to seize land
Zimbabwe president Robert Mugabe said his government would not compensate white farmers for land it planned to take to resettle peasants.

Job losses in China
Fifty thousand people are reported to have lost their jobs in Chengdu, south-west China, as state enterprises have declared themselves bankrupt. Page 6

West coast toast
California wine makers are toasting a record grape harvest, with yields in Napa and Sonoma valleys up 50 per cent.

John Denver killed in air crash
Singer John Denver, whose *Rocky Mountain High* and *Take Me Home, Country Roads* gained worldwide appeal, died when the single-engine aircraft he was piloting crashed into Monterey Bay, California.

BUSINESS NEWS

Britain positions itself for Emu entry but avoids firm commitment

Britain's Labour government has positioned itself for early entry into Emu without giving its European Union partners a firm commitment to the single currency. Page 18; Italian budget crisis, Page 2; Editorial Comment, Page 17

LVMH chairman Bernard Arnault has dropped his opposition to the £24bn ($38.8bn) merger between Guinness and Grand Metropolitan. Page 19; Observer, Page 17; Ceasefire agreed, Page 26; Lex, Page 26

TAG Group of Luxembourg is to operate Farnborough aerodrome in England, safeguarding the international air show. Page 11

Merita, Finland's largest bank, confirmed a SKr80bn ($10.6bn) plan to merge with Nordbanken, Sweden's fourth-largest lender, creating the largest financial services group in the Nordic region. Page 19; Lex, Page 18; Nordic dominance, Page 24

Thailand has eased criteria for the rescue of 58 suspended finance companies. Page 18; Unfinished business, Page 6

Pharmacia & Upjohn, US-Swedish pharmaceuticals company, is moving its headquarters from Windsor in the UK to the US east coast. Page 21

Reed International of the UK will become part of an international publishing combine based in the Netherlands after a £20bn ($32bn) merger between Elsevier and Wolters Kluwer. Page 19; Lex, Page 18

Lafarge, French cement manufacturer, launched a £1.67bn ($2.7bn) hostile bid for Redland, the UK tiles and aggregates company. Page 19; Rival bidders, Page 26; Lex, Page 32

Netcom Online Communication Services, the Californian internet service provider, is merging with ICG Communications of Colorado in a $285m deal. Page 22

International oil prices plunged, as analysts said traders feared that futures markets were "overbought". Page 30

Japan's current account surplus swelled year-on-year by 77.7 per cent to Y817.8bn ($6.81bn) during August. Page 6

Iran Aseman Airlines, Iran's second-largest state carrier, is buying two Airbus Industrie aircraft for $40m. Page 10

Pliva, Croatian drugs group, and ICN Pharmaceuticals of the US are to take majority stakes in two of Poland's leading pharmaceuticals companies. Page 23

South Korea's finance ministry has announced measures to boost the Seoul bourse, which has fallen to a 55-month low. Page 6

The UK is proposing corporation tax changes which could force more than 50 research organisations to pay tax for the first time. Page 12

China aims to double its share of the world shipbuilding market, after approving plans to build a Yn4.71bn ($566m) shipyard in Shanghai. Page 10

State retains presence in sector

France creates defence group

By Robert Graham in Paris and Alexander Nicoll in London

France's Socialist government last night announced the creation of a national defence group centred on the state-controlled electronics group Thomson-CSF but including the telecommunications and space business of Alcatel-Alsthom, the electronics of Dassault and the satellites of Aérospatiale.

The long-awaited decision involves a strong continued state presence in the defence sector and puts the concentration of the French national industry before the inclusion of European partners. The state will hold about 45 per cent of the new grouping, the details of which will be worked out between now and the year's end, according to defence ministry officials.

The emphasis on prior concentration of the French industry did not rule out later deals with European companies, the officials added.

"The previous government sought to re-organise through privatisation of Thomson. This gave precedence to financial solutions over industrial ones and we have preferred to seek an industrial logic," a defence ministry official said.

A rival bid had been presented by Lagardère. But it appears the government was in part swayed by the better fit of Alcatel, with its big financial muscle. The plan is a triumph for Serge Tchuruk, chairman of Alcatel.

There was considerable disappointment in the Lagardère camp. Lagardère was allied with Daimler Benz Aerospace and British Aerospace in its bid for Thomson.

One adviser to Lagardère dismissed the Paris decision as a "Franco-French solution", which

Triumph: Serge Tchuruk

would not assist in the much-needed consolidation of the European defence industry.

Lagardère is said to have been unwilling to accept some conditions made by the French government, including the size of the stake in the reorganised Thomson that it would be able to take.

The state just now holds 58 per cent of Thomson. Thomson will hold between 30 and 35 per cent of the new group; Alcatel will have 20-25 per cent; and the state-owned Aérospatiale about 10 per cent.

That would leave some 30-35 per cent in public hands, with a small proportion of the new group's shares available to employees, according to the defence ministry. No cash will change hands but the value of Alcatel's operations being placed with Thomson would be Ffr4bn ($600m).

Dassault had already teamed up earlier this year with Alcatel to bid for Thomson. So the new element in last night's restructuring plan is that Aérospatiale is to pool its satellite activities with the three other companies. That is a logical consequence of the collapse last year of Aérospatiale's negotiations to create a satellite and missiles joint venture with Daimler-Benz Aerospace (Dasa).

Generali launches hostile $9bn bid for French insurer

By Paul Betts in Milan and Andrew Jack in Paris

Assicurazioni Generali, Italy's largest insurer, yesterday launched a FFr55bn ($9.25bn) hostile bid for AGF, France's second largest insurance group, in the biggest attempted cross-border acquisition by an Italian company.

The Italian group said the acquisition would make it Europe's third largest insurance company with 11 per cent of the French market, 10 per cent of Spain's, 7 per cent of Belgium's and 8 per cent of Ireland's.

The Trieste-based group had been expected to make an acquisition but has waited for two years.

Generali's bid is for the entire share capital of AGF and its convertible bonds as well as for new AGF shares in the French company's current bid for Athena, the French insurer controlled by Worms & Cie.

AGF yesterday called the bid hostile and said it had summoned a board meeting to discuss the organisation of a "defence". Such action could include a search for an alternative "white knight" bidder.

The Generali offer complicates the FFr32bn friendly bid made last week by AGF in conjunction with Ifil, controlled by the Italian Agnelli family, for Worms, the French financial and industrial holding company.

The Ifil-AGF bid, launched as a "white knight" response to a hostile FFr30bn bid for Worms from François Pinault's Artemis, envisages AGF taking over Athena, the insurance company controlled by Worms.

Generali said it was acting on its own initiative, quashing rumours that it was considering a joint bid with Pinault for Worms and Athena.

Generali, known to have long considered a bid for Athena, said it would regard its bid as successful if it secured at least 50.01 per cent of AGF.

Ifil and AGF both said yesterday they were maintaining their offer for Worms. This increases in value since payment is partly in AGF shares, which have risen because of the Generali bid.

Financial analysts in Milan said the bid made strategic sense despite possible dilution of Generali earnings. The group was considering a L4,000bn ($2.3bn) capital increase to help fund the AGF acquisition.

Generali is offering FFr300 for AGF shares and FFr305 for the French company's convertible bonds. It said this represented a 27.6 per cent and 16 per cent premium on their respective closing prices last Friday.

Generali shares rose nearly 5 per cent in Milan immediately after the bid was announced. They closed up L1,589 to L38,300. AGF's shares were suspended after the bid was announced.

Observer, Page 17
Lex, Page 18
Bid sums up change, Page 24

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,084.01	(+38.8)
NASDAQ Composite	507.91	(+1.06)
Europe and Far East		
CAC40	3,000.98	(+45.87)
DAX	4,231.40	(+42.88)
FTSE 100	5,300.1	(+72.0)
Nikkei	17,204.7	(-172.22)
US LUNCHTIME RATES		
Federal Funds	closed	
3-mth Treas Bills: Yld	closed	
Long Bond	closed	
Yield	closed	
OTHER RATES		
UK: 3-mo Interbank	7¼%	(7⅛%)
UK: 10 yr Gilt	105.9688	(105.469)
France: 10 yr OAT	99.26	(99.0)
Germany: 10 yr Bund	103.01	(102.79)
Japan: 10 yr JGB	108.74	(108.45)
NORTH SEA OIL (Argus)		
Brent Dated	$20.09	(20.785)

GOLD		
New York: Comex		
	$327.7	(328.9)
London:		
	$328.85	(329.15)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.62275	
DM	1.75145	
FFr	5.86465	
SFr	1.46185	
Y	120.65	
London:		
£	1.6231	(1.621)
DM	1.7506	(1.7499)
FFr	5.8770	(5.8802)
SFr	1.4619	(1.4565)
Y	120.83	(120.04)
Tokyo close		Y 128.20
Sterling		
DM	2.8414	(2.8365)

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The debate on the merits or evils of drinking is far from being settled

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هكذا من الأصل

Italy's PM hardens negotiating stance over budget as Bertinotti comes under pressure from his own supporters to heal rift

Prodi closes in on deal with Communists

By James Blitz in Rome

Romano Prodi, Italy's prime minister, last night appeared almost certain of reaching a satisfactory deal with the country's neo-Communists, making it likely that he would be able to stay on as premier.

After intensive talks with the leaders of Reconstructed Communism – a minor party in the Italian parliament – Mr Prodi said "we are close to an understanding," and "discussions are proceeding in a satisfactory way." Mr Prodi said he expected full details of the agreement with RC to be announced today.

RC brought down Mr Prodi's administration last Thursday by withdrawing support for it in the Italian parliament, thereby depriving the government of a majority. But Fausto Bertinotti, RC leader, appears to have badly miscalculated, coming under intense pressure from his own supporters to patch up the rift. A metalworkers' union to which his party is closely allied has expressed outrage at the way RC brought down the government. Mr Bertinotti was booed and hissed on a visit to see the earthquake damage in Assisi in Umbria at the weekend.

In the wake of all this, the government reopened negotiations with RC and was yesterday sounding upbeat about the chances of success. Both sides were keeping the contents of their negotiations secret.

But Mr Bertinotti yesterday appeared to be under mounting pressure to climb down, amid signs that Mr Prodi has hardened his negotiating position in recent days. Mr Prodi has repeatedly made clear that there is no question of the government making any compromises in its budget plan. But his sureness of touch appeared to reach new heights yesterday in a relaxed and confident interview with Corriere della Sera, the Milan daily.

Mr Prodi said there was no way that he personally could resolve the current crisis because the decisions were now in other peoples' hands.

Instead, he laid down two conditions for him to stay on as prime minister: that the budget presented to parliament must remain untouched and that the government he led must be based on the existing majority in parliament.

"I believe that if the current crisis cannot be resolved there will be nothing left to go for but elections," he said, adding that a poll could be held before the end of the year if parliament is dissolved by Friday.

"But," he added, "these would be elections that nobody will want and which will not be welcome. If they have to happen, they must happen quickly because Europe won't wait."

Editorial Comment, Page 17

French business chief quits over work plans

By Andrew Jack in Paris

The head of Patronat, France's most influential business organisation, yesterday resigned unexpectedly in a sharp intensification of the fall-out from the French government's decision to cut the legal length of the working week.

Jean Gandois, who had led Patronat since 1994, warned of future conflict between business and government: "Companies have no choice other than a very tough battle, without pity. Social dialogue will be interrupted."

His decision comes after outspoken comments at the end of the jobs summit organised last Friday by Lionel Jospin, the prime minister. The summit set an objective of a 35 hour working week enforced by legislation, by 2000. The resignation is significant because Patronat has an important role alongside the unions and the government in France's corporatist system of negotiating wages, labour agreements and the management of the social security system.

Mr Gandois said at the conclusion of the jobs summit that his organisation had been tricked into taking part by the government, arguing that he had not been made aware of the intention to use legislation to impose reduced working hours.

He had been an outspoken critic of such legislation but he attempted to take a moderate line in negotiations with the government, rejecting suggestions that Patronat would apply the "policy of the empty chair" and stay away from the jobs summit. His views contrasted with the more hard-line members of Patronat including Denis Kessler, a senior executive at Axa, and Didier Pineau-Valenciennes, chairman of Schneider, who had threatened a boycott.

Mr Gandois said after the jobs summit that the decision by the government would threaten employment rather than create jobs and risked reducing businesses' competitive position in the build-up to the single European currency.

After his resignation, he said he was "more of a negotiator than a killer" and could not carry out "the new combat" on behalf of companies in the months to come.

He said before the end of the year Patronat would prepare an alternative programme of measures designed to create employment in contrast to the "authoritarian" working hours approach adopted by the government.

As former chairman of the Pechiney group, Mr Gandois had employed in a senior position and become friends with Martine Aubry, the powerful employment and solidarity minister, one of the leading proponents of legally enforced, reduced working hours.

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CORRECTION

Alexander Moroz

The chairman of the Ukrainian parliament is Alexander Moroz. The name was incorrectly spelt in yesterday's edition.

Kohl calls for unity in CDU

Chancellor rallies party to campaign on platform of family values, education and entrepreneurship

By Peter Norman in Leipzig

Helmut Kohl (right) was all smiles alongside CDU secretary-general Peter Hintze yesterday despite a low-key speech Reuters

Germany's Christian Democratic Union yesterday rallied to the support of Helmut Kohl, its leader, after the chancellor told the party's annual congress the CDU was facing one of the toughest election campaigns in the history of the federal republic.

Delegates rose to their feet in applause when Mr Kohl, near the end of his 90-minute speech, declared it was his "duty" to stand for a fifth term of office in the German general election on September 27 1998.

The 67-year-old chancellor delivered his keynote address to the conference in a remarkably low key manner and appeared at times old and tired, even yawning at one point. The three-and-a-half-minute standing ovation that followed his address appeared dutiful rather than enthusiastic.

Klaus Escher, leader of the Junge Union, the CDU's youth wing, responded to the party's desire for unity when he declared he would concentrate on the election campaign and was ending his campaign to modernise the CDU until after the poll. Last week, Mr Escher called on the CDU to renew policies and for Mr Kohl to step down as leader after the election.

Mr Kohl's speech unveiled no initiatives. But it gave some insights into how the CDU would fight next year's federal election campaign as well as those in the states of Lower Saxony, Saxony Anhalt, Bavaria and Mecklenburg-Vorpommern.

He stressed the importance of the European single currency as a response to globalisation and promised that the CDU would push it through.

He warned that the opposition SPD and Greens would seek to govern Germany in alliance with the east German former communist Party of Democratic Socialism. Mr Kohl presented the CDU as the party of individual responsibility, family values, entrepreneurship and better education.

The chancellor was at his most effective when he attacked the Social Democrats and appealed for unity in the CDU. He denounced the two SPD contenders for the chancellorship, describing Gerhard Schröder, the popular SPD prime minister of Lower Saxony, as an "opportunist", and accusing Oskar Lafontaine, the SPD leader, of driving the Saarland, of which he is prime minister, into financial ruin.

But long passages in his speech, in which Mr Kohl stressed Germany's need to reform, warned of the problems of its ageing population and told delegates that the government could no longer deliver largesse to the voters, were listened to in silence. Many lines, where his speech writers must have hoped for a rousing delivery, were delivered quietly in a presidential style.

Only rarely did Mr Kohl inject passion into his speech. On one occasion, he departed from his prepared text to castigate as a "scandal" moves to end religious education in schools.

On another, he swore Germany would never follow the British government's example under Margaret Thatcher and ration medical care for the elderly. "We are not the party of the market economy. We are the party of the social market economy," he declared.

NEWS DIGEST

Tension grows in Polish talks

Relations took a turn for the worse yesterday between the union-led Solidarity Electoral Action (AWS) and the pro-business Freedom Union (UW), the two Polish parties negotiating a coalition pact following election victory on September 21.

The development came after the UW, the smaller party, demanded a big say over economic policy in the next cabinet, stinging Janusz Tomaszewski, an AWS leader, into comparing the Freedom Union in a radio interview with a small dog barking at the AWS's heels.

Tomasz Tywonek, the AWS spokesman, said the AWS leadership would convene on Monday evening to review progress in the talks. A meeting expected yesterday between Leszek Balcerowicz, UW leader, and Marian Krzaklewski, his AWS counterpart, could only be arranged after that. "I can't say when it will take place," he said. Mr Krzaklewski said last week he expected to give the name of the AWS candidate for the next prime minister to President Aleksander Kwasniewski by October 16 when the outgoing administration is expected formally to resign. *Christopher Bobinski, Warsaw*

■ RUSSIAN VISA ROW

Banker blames rivals

Boris Jordan, the American investment banker stripped of his Russian multi-entry visa earlier this month, yesterday said he was the victim of a bankers' war which threatened to besmirch Russia's reputation in the international business community. Mr Jordan, one of the pioneers of Russia's booming capital markets, blamed unscrupulous rivals of Oneximbank, the Russian financial powerhouse with which Mr Jordan is closely affiliated, for his visa difficulties.

"The issue is not me personally, but Russia's image in the financial world," Mr Jordan, who was re-admitted to Russia last Friday, said yesterday. Mr Jordan would not specify which financial groups he believed were behind the withdrawal of his multi-entry visa. But he claimed his visa difficulties were part of a "media war" against Oneximbank and its allies waged by competitors unable to survive in a free and open market economy.

Officials said Mr Jordan has been granted a three-month single entry visa, but his multi-entry visa has not yet been restored. *Chrystia Freeland, Moscow*

■ HOLOCAUST ACCOUNTS

Swiss banks counter criticism

Swiss banks are stepping up a campaign to bolster their international image and counter criticism that they are holding on to dormant bank accounts of Holocaust victims.The campaign, which involves full-page advertisements in 120 newspapers in 30 countries outlining the "significant progress" which the banks have made, comes only a few days after Union Bank of Switzerland was dropped as lead manager for a $1bn loan for New York City because of its poor record in co-operating with investigations into its wartime record.

The banks, which published their first list of 1,785 dormant accounts in July, will publish a second list on October 29, which will include dormant accounts of Swiss citizens. *William Hall, Zurich*

■ BANK TELECOMS

Swift eases membership rules

An international telecommunications network co-operative which offers secure data transmission for banks, has agreed to change its membership rules after intervention by the competition authorities in Brussels.

The European Commission, acting on a complaint from La Poste, the French post office, said the Society for Worldwide International Financial Telecommunications (Swift) – owned by more than 2,000 banks – was abusing its dominant position in the international transfer market when it refused membership for La Poste. Swift is the only network providing connections to banks located anywhere in the world. By denying La Poste entry, it had in effect excluded it from the international transfer market, said Brussels.

Swift denied the Commission's findings, saying there were many alternatives for international payments providers in France and abroad. However, it agreed to settle the case by granting access to any European Union institution which provides cross-border payments for the public and fulfils criteria laid down by the European Monetary Institute. *Emma Tucker, Brussels*

■ BASQUE SEPARATISM

Herri Batasuna trial starts

Leaders of the political wing of the Basque separatist group Eta went on trial yesterday on charges of co-operating with the armed group. Amid heavy security, the 23 members of Herri Batasuna's national board arrived at the Supreme Court in Madrid in the early morning. The trial was supposed to start a week ago but was suspended moments before it was about to begin after Herri Batasuna's attorneys questioned the impartiality of one of the three judges presiding over the trial. The court rejected the claim. *AP, Madrid*

Companies face a time gap dilemma

By Wolfgang Münchau in London and David Owen in Paris

Preparing for Emu

The time gap between the scheduled 1999 start of economic and monetary union and the introduction of euro banknotes in 2002 poses a dilemma for many companies. At what point exactly should they convert their external and internal accounting systems?

A surprising number of companies have not given this matter thought. Business consultants regularly express dismay at such apathy. Further, those who seem well prepared disagree on whether to convert early or late, or opt for a dual-accounting strategy.

During the period from 1999 until 2002, companies and individuals have the right, but cannot be forced, to use the euro, under the "no compulsion, no prohibition" principle.

At one extreme of the spectrum are Daimler-Benz, the automotive group, and Siemens, the electronics company. Daimler said last week it will convert all its systems on the first day of Emu: January 1 1999. From that day onwards, the euro, the new single currency, will become the in-house currency.

Suppliers will then have to quote their prices in euros. Mercedes cars will have euro price tags. It is possible, though not yet decided, that Daimler will pay its employees in euros from that day. That would imply that employees convert their bank accounts into euros. The transfer from euros and into D-Mark banknotes, necessary for any cash transactions during the transition period, would occur at bank, not company, level.

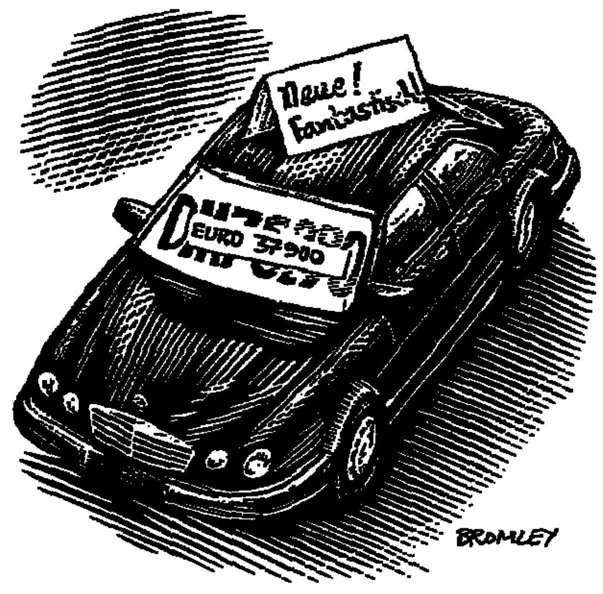
Siemens is equally aggressive, except that the changeover will occur nine months later, on October 1 1999, to coincide with the company's lopsided financial year.

For Siemens, the decision could have huge commercial ramifications. Europe accounts for more than two-thirds of worldwide sales of $55bn, and the share of gross profits is even higher.

Siemens has said it will write to its clients and suppliers saying that only euros would be acceptable from October 1999.

This means that suppliers outside the Emu-zone, for example in the UK, might find the only way to hedge against the currency risk would be to switch to euros themselves, and pass the currency risk to their own suppliers. As this process continues, the euro is forced deeper and deeper into the supply chain, even in non-participating countries.

But not all companies will be as radical as Daimler and Siemens. Some may use dual accounting. Avis Europe, the car rental group, recently became the first quoted UK company to report its results in sterling and ecus, the basket currency of existing European Union members. The company said it took the step because of the large proportion of its business generated outside the UK.



International Business Machines has pencilled in a provisional conversion date of 2001. Currency conversion has a distinctly lower-profile at IBM than at Daimler or Siemens, since IBM already uses a single currency, the dollar, as its in-house monetary unit.

Saint-Gobain, the French glass and ceramics group, plans to adopt a flexible approach, switching to the euro from January 1 1999 for its consolidated accounts. Subsidiaries will be able to make up their own minds at what point in the three-year transition period they switch.

François Janny, Treasury and financing director, says subsidiaries supplying glass to the automotive industry might well switch at the earliest opportunity. By contrast, building materials businesses, whose clients tend to be more locally based, will probably be among the last to move.

The group will give itself a one-year "safety margin" by insisting all subsidiaries start accounting in euros by January 1 2001, unless good reasons exist not to do so. Mr Janny expects to know which businesses will be in the first wave in about three months.

Unlike Daimler and Siemens, Saint-Gobain expects to continue paying employees in national currencies, for two main reasons. First, individuals will not initially be able to conduct day-to-day transactions in euros and, second, because it expects French tax authorities to insist tax declarations be completed in French francs.

National tax authorities and public administrations are likely to prove the biggest obstacle to a genuine fast-track conversion process. The German tax authorities will not accept the euro until the end of the transition period, and the various social securities funds – the pension, health and unemployment benefit administrations – are also likely to stick with the D-Mark as long as they can.

Since monetary union of such scale knows no precedent, it is not known how companies and individuals would behave during a dual-denomination transition period. Emu experts at Daimler-Benz hope the euro will soon gain critical mass. This view is also shared by many experts inside the European Commission.

Sceptics say the euro will not gain the upper hand until euro notes and coins are introduced. This is scheduled to start at the beginning of 2002. This aspect of Emu is one of the hardest to pinpoint in advance.

Ireland expected to resist Commission over tax

Irish finance minister under pressure to raise company rate of 10% in line with EU ahead of monetary union

By John Murray Brown

Charlie McCreevy, the Irish finance minister, will today find himself under pressure from the European Commission to bring Ireland's corporate tax rate into line with other member states. Mr McCreevy, who is scheduled to meet Karel Van Miert, the European commissioner for competition in Brussels, is expected to resist strongly.

With EU countries anxious to contain budget deficits to qualify for monetary union, Ireland's 10 per cent corporate tax rate has become a bone of contention for a number of member states, who argue it distorts investment flows, and diverts exchequer revenues.

Dublin's current tax rate lasts until 2010 for manufacturing and traded services, and 2005 for financial services, and does not require specific Commission approval.

The disagreement with Dublin centres over what tax rate will apply when the current regime runs out. Brussels says it will treat the tax regime as state aid, and as such whatever is agreed will require the approval of the competition commissioner.

Mr McCreevy will be joined by Mary Harney, employment and enterprise minister, at what is one of a number of meetings Mr Van Miert is conducting with member states on state aid.

The importance of the issue was underlined last week in a survey of German businesses in Dublin by the German Chamber of Commerce which found that the low tax rate was the main reason to locate in Ireland. It also said clarification of the future rate was "now essential" for investors. Foreign-owned manufacturing accounts for more than half of manufacturing employment, 60 per cent of industrial output and 70 per cent of manufactured exports.

The Irish exchequer has certainly benefited hugely, with corporate tax accounting for close to a third of total tax take.

But Irish officials maintain the tax regime has not resulted in displacing jobs in other EU states as 60 per cent of the foreign investment has been of US origin – using Ireland as a base to target the EU.

The conservative Fine Gael party said in May when in government that it wanted to keep a uniform 12.5 per cent rate until 2025 – in a bid to provide some certainty for foreign companies investing or thinking of investing in Ireland. The nominal corporate tax rate is 38 per cent.

The current government led by the populist Fianna Fail party pledged in its election manifesto in June to reduce all corporate tax rates to 10 per cent by 2010, in answer to Commission concerns its regime was "discriminatory".

Fianna Fail says it wants a "single low rate." Commission officials say the Irish are seeking approval for a 13 per cent rate. The Commission was on the point of conceding Dublin's demand, but has now hardened its position.

The dispute comes at a time when the Commission is holding a series of meetings in an attempt to agree a voluntary code of conduct to stop the predatory use of low corporate tax regimes by member states.

Ireland's larger worry is that Brussels is seeking to use the tax issue as part of the ongoing negotiations under way on the budgetary transfers Ireland receives under EU regional and other aid programmes, which Dublin is keen to resist.

"The days when Ireland could expect to provide an attractive tax regime and still get EU funding is coming to an end," a Commission official said.

Ireland receives more EU aid per head than any other member country. But the recent strong growth of the economy – averaging more than 5 per cent a year for the past 6 years – means Ireland will no longer qualify for some support from Brussels when the next financial round is negotiated.

Solana plea over Bosnia support

By David Buchan, Diplomatic Editor

Javier Solana, the Nato secretary general, yesterday made his strongest plea to date for "a long-term commitment" by the alliance to peacekeeping in Bosnia.

Speaking to an annual session in Bucharest of Nato's parliamentary assembly, Mr Solana promised: "We will not turn our backs on Bosnia. That would be against our interest as well as a tragic mistake."

The US administration has promised Congress that US troops, which are part of the 36,000-strong Stabilisation Force (Sfor) in Bosnia, will be withdrawn by June 1998. This has put strong pressure on other Nato allies to pull out their forces at the same time, though the alliance has taken no decision on whether or how to replace Sfor.

Following the lead of US administration officials who have recently started to prepare public opinion for some residual US role in Bosnia after the middle of next year, Mr Solana said: "Nato troops cannot and will not stay indefinitely, but Nato has a long term interest in and commitment to Bosnia".

Javier Solana speaking yesterday in Bucharest: 'We will not turn our backs on Bosnia' *Reuters*

Under the 1995 Dayton peace accords, the role of Sfor troops has been to provide reassurance to refugees returning home to areas from which they were chased in the 1992-95 war, and thereby to end the effective partition of much of the country on ethnic lines.

The fear is that a pull-out of Sfor will reinforce partition and make Dayton a dead letter.

Mr Solana rejected this prospect in the strongest possible terms. Abandonment of Dayton and acceptance of partition "would be catastrophic – morally, politically and economically", he told MPs from Nato's 16 countries gathered in the capital of Romania, which has applied to join Nato.

He said such a step would be "absurd" just when Dayton was "beginning to show results".

Hungary basks in economic health

By Anthony Robinson, East Europe Editor

In an embarrassing setback for the Hungarian government, the constitutional court yesterday overturned a government plan to hold referendums on land ownership and Nato membership on November 16, Anatol Lieven reports from Budapest. The government last night was engaged in urgent talks with the opposition in an effort to save the Nato referendum, viewed as crucial to Hungary's negotiations to join the alliance. The court ruled that Hungary's present referendum law conflicts with the constitution and must be changed by parliament before December 31.

Hungary has entered a virtuous circle of export and investment-led economic growth coupled with declining inflation and a sharp fall in internal and foreign debt, Gyorgy Suranyi, president of the country's National Bank, said in London yesterday.

"For the first time, Hungary has export and investment-led growth which will not cause a deterioration in the external account or the fiscal balance," he said.

"Higher than expected growth of 4 per cent this year has been accompanied by a better than expected improvement in the foreign trade account.

At the same time, inflation continues its downward trend, while higher than expected earnings have been under-pinned by the fourth year of double-digit productivity gains and higher personal savings."

Lower inflation, rapid privatisation and high foreign investment have combined to cut the net foreign currency debt from \$18.9bn in 1994 to \$10.5bn by the end of July this year. The public sector deficit has also fallen from 9.6 per cent of gross domestic product in 1994 to the 4.3 per cent expected for 1997.

"Inflation has fallen from an average 23 per cent in 1996 to an expected 18 per cent this year and is expected to decline further to 12 or 13 per cent in 1998," Mr Suranyi said.

With elections due next spring, Mr Suranyi warned that maintaining current tight fiscal and monetary discipline was essential to ensure a further reduction in foreign and domestic debt and inflation.

This combination had helped to attract the \$16bn in foreign direct investment which underpins improved exports and export-led growth.

Mr Suranyi's presentation in London comes as Hungary is preparing the privatisation of the remaining 25 per cent tranche of the Hungarian savings bank and the floating of a further tranche of MATAV, the telecoms utility, on the New York Stock Exchange.

Noting the steady improvement in the duration and spreads on Hungarian bonds over the past two years, Mr Suranyi said no further borrowing was planned at present.

Hungary is at present paying 50 basis points over London Interbank Offered Rate (Libor) for 5-7 year foreign currency denominated bonds issued by the National Bank.

Turks buzz Greek minister's aircraft

By John Barham in Ankara

Athens yesterday accused Ankara of escalating tensions in the eastern Mediterranean after two Turkish jets "harassed" the aircraft carrying the Greek defence minister and his entourage .

The Greek defence ministry said two Turkish F-16 jets buzzed the aircraft of Akis Tsohatzopoulos as it approached Cyprus, where Greek and Greek Cypriot forces are holding joint exercises. Two Greek F-4 fighters participating in the exercises intercepted the Turkish jets and the minister's aircraft landed safely on Cyprus.

The incident follows Greece's claim that Turkish jets violated Greek air space about 60 times on Sunday, in the most serious confrontation since the two countries almost came to blows last year over control of two uninhabited islets in the Aegean.

Greek and Turkish jets "engaged" in about 20 instances on Sunday between Rhodes and Cyprus, where the Greek and Cypriot military exercises began on Friday.

Turkey has denied it was seeking to disrupt the exercises, claiming it was simply monitoring the war games. However, independent analysts worry that a miscalculation by a fighter pilot could trigger a clash between Greece and Turkey.

The incidents took place as Richard Holbrooke, US special envoy, held talks with Mesut Yilmaz, Turkey's prime minister. Mr Holbrooke said: "I was enormously impressed. He [Yilmaz] laid out his government's position with clarity.

Mr Holbrooke mediated between Greece and Turkey, ostensibly Nato allies, in January 1996, averting a conflict, but has failed to build on that success.

Washington says relieving tension in the Aegean would encourage both countries to reach an understanding over Cyprus.

Talks between the Greek and Turkish communities to reunify the island, divided since Turkey's 1974 invasion, failed in August.

■ Maj Gen Amnon Shahak, Israel's army commander, held talks yesterday in Ankara with Gen Ismael Karadayi, his Turkish counterpart. The armed forces of both countries have a flourishing relationship, with Israeli pilots flying training missions in Turkey, and Turkish airmen being trained in Israel.

Israeli press reports say Gen Shahak will try to convince Turkey to award a contract for 1,000 tanks to the makers of Israel's advanced Merkava III tank.

Norway government bows out

By Tim Burt in Stockholm

Norway's ruling Labour party yesterday announced its widely-trailed resignation after a budget in which it unveiled plans to invest an additional NKr73.4bn (\$10.5bn) in the country's government petroleum fund.

The increased investment in the fund – the Norwegian cash reserve designed to sustain government coffers after its oil reserves begin to run out – is expected to be endorsed by a new centre-right coalition due to take power at the end of the week.

Labour agreed to resign after failing to achieve its self-imposed target of 36.9 per cent of the vote in last month's parliamentary elections.

In its valedictory budget statement, the minority Labour government predicted the fund's assets would total NKr570bn by the turn of the century, and said state allocations to the fund would be increased to NKr116bn a year by 2001.

Earlier this year, the government announced plans to invest part of the fund in international equities in a bid to increase its returns, which are expected to reach NKr5.1bn next year.

Jens Stoltenberg, finance minister, said the government could afford to increase the size of the fund because net cash flows from the oil industry were expected to rise from NKr85.5bn in 1998 to NKr135bn a year in 2001.

He was speaking shortly before Thorbjorn Jagland, the prime minister and Labour leader, offered his resignation to King Harald V.

In spite of the change of government, the coalition of the Christian People's party, Liberals and Centre party is expected to embrace Labour's plans to allocate NKr12.2bn of next year's oil income to cover Norway's non-oil budget deficit.

The new government is also likely to endorse most of Labour's plans for higher public spending – including more funds for care of the elderly, mental health services and hospitals – and its proposed increases in direct and indirect taxes by about NKr3.6bn in real terms.

As part of that package, Mr Stoltenberg announced increases in the top and middle tax bands, and the abolition of tax breaks on income from investments in shares.

The budget proposals are forecast to lead to a cut in domestic demand equivalent to about 0.75 per cent of mainland GDP, excluding contributions from the oil and shipping industries. In total, the tightening of fiscal policy will equal about 1.5 per cent of GDP measured between 1994 and 1997.

Norsk Hydro prepares for showdown with Ukraine

Company says it was unfairly ousted, reports Charles Clover

Norsk Hydro, the Norwegian industrial conglomerate, is to sue the state of Ukraine over a project which some charge would give the company a stranglehold on the fertiliser industry in Ukraine's agricultural sector.

Norsk Hydro says it was unfairly ousted from a joint venture to build a terminal which would load and unload phosphate in the Black Sea port of Yuzhny, near Odessa.

"This is building into a major showdown," said Odd Gronlie, vice-president of Norsk Hydro's Commonwealth of Independent States division. "But I think the top management of Ukraine wants to change the reputation of the country. We feel support from the higher levels of the government."

Ukraine has been under siege recently over allegations of corruption and mistreatment of foreign investors. Foreign direct investment, as a result, remains quite low.

But observers say it is primarily foreign companies that signed apparently favourable contracts early which are feeling the consequences. "They sign a contract and once they realise what it's all about, they want to renegotiate," said Mr Gronlie.

Norsk was officially expelled from the joint venture last February, after a year and a half of conflicts with its joint venture partners and local authorities. It has since been replaced by Fedcominvest, a Russian phosphate-trading company based in Monaco, with a non-controlling stake.

Alexei Stavnitser, the president of Transinvest, one of Norsk's local joint-venture partners, said the reason behind the Norwegian company's removal was that it had not even begun work on the terminal 20 months after signing the agreement.

Norsk counters that they could not go ahead with the project because a stop order was issued by local officials in Odessa after Norsk failed to receive a series of local permits. Obtaining the local permits was the responsibility of the local partner, they say.

'By controlling the terminal, Norsk Hydro would have the key to the fertiliser market'

Last October, an Odessa court nullified the management contract which gave Norsk control of the terminal. The main reason given was that the venture would constitute a monopoly on the import and export of phosphate, out of which agricultural fertilisers are made.

Norsk Hydro is the world's largest supplier of fertiliser and controls 8 per cent of the phosphate-based fertiliser trade in Ukraine.

Controlling the port facilities might give the company further leverage over the fertiliser trade in Ukraine, says Oleg Kutatiladze, Transinvest's lawyer.

"By controlling the terminal, Norsk Hydro would have the key to the fertiliser market in Ukraine," Mr Stavnitser said.

At the moment Ukraine exports phosphate-based fertilisers but in earlier times, when the republic was the Soviet Union's breadbasket, they were used domestically. As Ukraine's vast agricultural potential begins to flourish again, the country might become a big market for imported fertilisers, which are cheaper to import by sea rather than by rail through Russia.

Mr Gronlie said in an interview that controlling the port facilities might help Norsk obtain market share in fertilisers, but added that the increase would be very minor.

When asked why the issue had not been considered before the joint venture agreement was signed, Svetlana Gonchar of the Ukrainian State Property Fund said: "The anti-monopoly committee had only just begun work in 1994. I don't think they looked at this very hard."

Meanwhile, Mr Gronlie calls the decision by a Ukrainian court to expel them invalid, because their joint venture contract stipulates that all disputes are to be handled in Norwegian courts or in the International Court of Arbitration in Stockholm.

"This country has a huge potential for us. We would like to invest more in Ukraine," said Mr Gronlie. "But nobody can do business if they keep changing the rules."

Rival Kurds shatter ceasefire

By Roula Khalaf in London

Rival Kurdish factions resumed heavy fighting in northern Iraq yesterday, shattering a year-long ceasefire.

The fighting between the Kurdish Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) followed a breakdown in peace talks which were arranged by the US, Britain and Turkey.

The talks were aimed at solidifying the ceasefire and keeping Baghdad out of the Kurdish "safe haven" where a no-fly zone had been imposed by the allies after the Gulf war.

Last year, fighting between the two sides led the KDP to seek Baghdad's help to recapture the region's administration capital of Arbil, allowing Iraqi president Saddam Hussein a renewed role in the north.

The Iraqi incursion provoked the US to retaliate with missile attacks on Iraq's air defence systems in the south.

The resumption in fighting marks a setback for US efforts to maintain a semblance of stability in northern Iraq. It coincides with rising tensions in the Gulf.

The US has sent the aircraft carrier Nimitz to the region ahead of schedule to strengthen air patrols over the southern Iraqi no-fly zone and deter President Saddam from committing any violations.

The breakdown of the ceasefire also follows a Turkish incursion into northern Iraq against Turkish Kurd separatists who maintain bases in the area.

Although the ceasefire in the north has been violated several times in the past year, a United Nations official in Baghdad said the attacks were "the most serious in a year" and fighting was taking place on several fronts.

Each side accused the other of provoking the fighting. The KDP said a large PUK force supported by heavy weapons attacked several KDP positions in Zyarat, east of Shaqlawa, Kapki Hamad Agha, east of Hariri, and Qaare, north-east of Rawanduz.

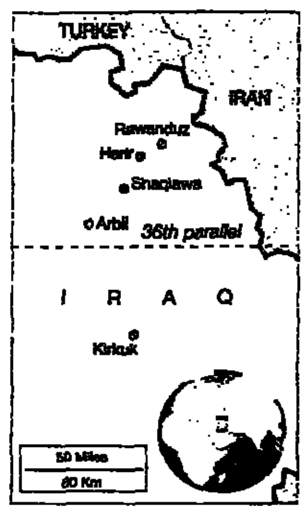
A spokesman for the PUK in London said that his party was rebuffing KDP attacks and had taken several KDP positions.

An Iraqi opposition official speculated yesterday that since most of the fighting appeared to be taking place near Shaqlawa, which lies about 40km north of Arbil, the PUK may attempt to retake Arbil by cutting the KDP's lines of communications to the city, without attacking the city directly.

The two Kurdish factions have been locked in a dispute since 1994 over control of the territories' administration and, in particular, the revenues that accrue from trade across the border with Turkey.

This is mostly Iraqi oil that crosses to Turkey on trucks. The west has turned a blind eye to the trade although it constitutes a violation of UN sanctions on Iraq.

According to diplomats, in six meetings which have been held over the past year, the PUK has demanded a share of the revenues, now controlled by the KDP, as well as the demilitarisation of Arbil and other cities, and the setting up of a coalition government to prepare for elections. The KDP argues that the talks should be focused on confidence building measures before the main issues are tackled.



NEWS DIGEST

Israel frees more prisoners

Israel yesterday released nine Arab prisoners and sent them to Jordan as part of a recent deal with the Hashemite Kingdom following a bungled Israeli assassination attempt in Amman on a leader of Hamas, the Islamic Resistance Movement.

In addition to eight Palestinians and a Jordanian released yesterday, Israel has freed 20 other prisoners and is expected to release up to 50 more. Jordan returned two Israeli agents last week as part of the agreement.

Israeli opposition leaders yesterday criticised Benjamin Netanyahu, Israel's prime minister, for not attending a special session of the Knesset (parliament) convened to discuss the assassination fiasco. Michael Eitan, Israel's science minister, who spoke on behalf of Mr Netanyahu, justified the attack, saying Israel had the right to wage war on terror groups wherever it pleased, including in Jordan. Meanwhile, the Israeli army said yesterday it planned to demolish three homes in the occupied West Bank belonging to families of Hamas suicide bombers who killed more than 20 Israelis in recent attacks.

Avi Machlis, Jerusalem

■ SATURN MISSION

Cassini probe launch delayed

The US space agency yesterday called off the planned launch of its controversial probe to Saturn because of last-minute technical glitches and strong high-level winds. Nasa's countdown commentator, George Diller, said it would be at least tomorrow before the space agency could try again to launch the nuclear-powered Cassini probe. During the final hours of the countdown, ground controllers detected problems with launch pad equipment that tests batteries on Cassini's US Air Force Titan 4B rocket. A possible problem was also found with a computer aboard the probe.

The towering 56-metre Titan was to place the (5,670kg) Cassini probe on a roundabout route to the ringed planet, swinging by Venus twice, Earth and Jupiter before reaching its goal in July 2004.

The probe's plutonium-power source generated calls from anti-nuclear protesters to scrap the mission, but Nasa and the Department of Energy, which fabricated the batteries, said there was no risk to the public should Cassini's rocket explode on launch. *Reuters, Cape Canaveral*

■ LOCKERBIE BOMBING

British concession on trial

International observers would be welcome at any trial in Scotland of two Libyans suspected of carrying out the 1988 Lockerbie airliner bombing, the UK government said yesterday. The concession was made by Scotland's Lord Advocate, Lord Hardie, during an International Court hearing on the case in the Hague.

Libya is asking the court to quash attempts by the UK to extradite to two men and argues they should be tried in a neutral country or in The Hague. *John Mason, London*

Australia pressed to co-operate on climate talks

By Leyla Boulton in London

Commonwealth heads of government were yesterday urged to put pressure on Australia to co-operate at international negotiations in December to fight climate change

A report which had been commissioned by the UK government for the Commonwealth summit later this month said the organisation could "make a crucial contribution to finding appropriate compromises between apparently irreconcilable positions" ahead of the climate change talks to be held in Kyoto, Japan.

The report said the preparatory talks for Kyoto were in "serious difficulty".

Michael Grubb, the climate change expert who coordinated the report, said the most useful thing the summit could do would be to "clarify" the stance of Australia.

It stood out among industrialised countries for opposing plans by industrialised countries to negotiate reductions in their emissions of greenhouse gases, including carbon dioxide from the consumption of fossil fuels, he added.

The Commonwealth's members range from small island states who fear they will sink into the sea as a result of climate change, to large developing nations such as India, which are coming under pressure to join industrialised nations' efforts to agree emission cuts.

The report urged developing nations to start discussions at Kyoto on a timetable for joining the fight against climate change.

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Kazakhstan oil struggle breaks out

The result has been shockwaves in the political arena, writes **Charles Clover**

The appointment of oil supremo Nurlan Balgimbayev as prime minister of Kazakhstan in place of his former rival, Akezhan Kashegeldin, last week highlights a struggle over the oil sector and the political fallout from a macro-economic stabilisation programme implemented by the previous government.

The political demise of Mr Kashegeldin and his government was most immediately the result of a payments arrears crisis similar to those in many other post-Soviet economies.

Hundreds of millions of dollars' worth of wages and pensions have not been paid by budget organisations (ministries and committees financed by the central budget) in Kazakhstan, and Mr Kashegeldin's government faced accusations that it was simply using arrears as a fiscal device to hold down budget deficits and meet macroeconomic targets of low inflation and currency stability.

Kazakhstan's President Nursultan Nazarbayev, addressing both houses of parliament on Friday, called the outgoing government's record "bleak" and said the top priority for the new government in 1998 would be "prompt payment of wages and pensions by budget organisations".

Mr Balgimbayev, who is popular with western oil interests, will have to find a way to do this without resorting to inflationary central bank finance and without depending on privatisation revenues to balance the budget.

Privatisation revenues have for the past two years made up for a chronic 15-20 per cent shortfall in tax collection by the government, but most of the country's prime assets have already been sold.

Kazakhstan's tax collection shortfall is caused primarily by the oil industry withholding taxes in a tit-for-tat struggle with the government over control, as Mr Kashegeldin's government has proceeded with plans to privatise it.

Already, most of Kazakhstan's oil assets have been sold off, against the wishes of Mr Balgimbayev.

Mr Balgimbayev, 49, is easily the single most influential person in Kazakhstan's oil industry, having served as oil minister for two years, most recently as head of the newly-created state oil company Kazakoil.

He plans to raise oil production from the current 29m tonnes a year to 170m tonnes a year over the next 20 years.

The struggle over control of the oil industry reached its climax last November, when Sarybai Kalmurzayev, chairman of the State Property Fund, publicly accused Mr Balgimbayev's oil ministry of appropriating $500m in oil revenues.

The argument blew over when Mr Kalmurzayev declined to furnish proof of this, though many observers feel both sides in the dispute simply called a truce.

"This issue was never satisfactorily solved," said Galymzhan Zhakianov, head of the watchdog Committee on Strategic Resources.

Meanwhile, the central government has repeatedly requisitioned diesel fuel from oil companies to supply the country's farmers, allegedly without paying for it.

The appointment of Mr Balgimbayev may be an attempt to smooth over ruffled feathers and "co-opt" the oil industry.

More worrying, though, is that this primarily economic struggle between the oil industry and the central government has recently started to take on a regional character.

Natives of the Caspian Sea oil region in western Kazakhstan routinely complain that the country lives off of their oil, but that they do not get enough representation in the government. Most members of the previous government were from the eastern part of the country.

One American oil company executive last summer noted ominously that "many people in the Caspian Sea region seem to identify more strongly with Moscow than they do with Almaty".

The appointment of Mr Balgimbayev, who hails from the Caspian Sea town of Atyrau, may be an attempt to address this gap in regional representation.

A cautious player with Egypt's $23bn pension fund

Mark Huband reports on plans to invest surpluses in a broad range of assets for the benefit of pensioners

"Taboo" is becoming unfashionable among the handful of free marketeers breaking down resistance to the widening net of Egypt's economic reform programme. With $23bn to invest, Mervat Tellawi has little time for the old mentality. But, charged with investing the state pension fund, she has replaced taboos with a mix of caution and market forces.

The surplus of two of Egypt's four pension funds is to be used for investment in a broad range of areas, from stocks to real estate. The fund will be the biggest single domestic source of finance to have been invested in Egypt. The aim is to raise the level of pensions by investing the fund, while also eliminating the state's contribution, which increases at an annual rate of 10 per cent.

"Up until now, it's been off-limits to speak about using the fund, or to talk about investing it. That's been the mentality, so the money has sat there and done nothing.

"Now one should go slowly, and make clear how much the reserves are, and the level the government is paying to pensioners," said Mrs Tellawi, Egypt's ambassador to Japan until her appointment as minister for insurance and social affairs in July.

Beyond the taboo of investing the population's nest-egg, her main technical problem is that nobody has any idea how much the state has been pouring in to the funds.

"The aims are, first, to eliminate the state contribution because the government budget can't afford it. This will be a major achievement, in part because nobody knows how much the state is contributing each year," she said. Actuaries have been appointed to establish the true value of a sum likely to be enormous.

The fact that the sum is unknown is a mark of the disarray burdening some areas of state finances. "We're not convinced that all the figures being used are accurate, and they are all very rough figures," she said, though estimating that total state contributions to the funds now amount to between E£70bn-E£80bn ($20bn-$23.5bn).

One such rough figure is that the overall value of the pension fund surplus, which has accumulated since 1985, is $23bn. Each year the various funds earn E£8bn from contributions. Payments amount to E£4bn, leaving an equivalent surplus. This surplus is accumulating a modest rate of interest at the National Investment Bank, where it accounts for 45 per cent of bank assets.

"The level of investment of the funds has to be gradual, to gain experience of the market. I need to have capacity building inside my ministry. Until I build my investment capacity, I will use existing capacity in the market, which is also a recent one," said Mrs Tellawi.

As a sign of some unease over the capabilities of local Egyptian finance houses, the government has employed an unnamed British company to advise on the choice of Egyptian fund managers to be charged with investing the funds.

Initial investments are likely to be in tranches of E£100m. However, the ministry last week invested E£175m in a 10 per cent stake in the profitable Amreya Cement company, before even announcing the pension funds had become available.

"Many have said the market can't afford to take too much, that it would destabilise it. We're not a competitor in the market," Mrs Tellawi said. "I cannot play with this money. I have to be very careful. The normal degree of risk any normal player in the market can afford, the pension cannot afford. It's peoples' money."

Investment is likely to be made in mutual funds, stocks, new companies and real estate. Cairo financiers have applauded the decision to free the money. "I think it will have a tremendously positive impact on the market, as it will have for the pensioners themselves," said Mohammed Younes, chairman of Concord International Investments, which manages four mutual funds.

Financiers assess the growth of the financial sector as central to the government's ambition of achieving 7 per cent annual gross domestic product growth, up from the present 4.9 per cent.

NEWS: ASIA-PACIFIC

Seoul court sentences president's son to 3 years

By John Burton in Seoul

The youngest son of Kim Young-sam, the South Korean president, yesterday was sentenced to a three-year prison term and fined nearly $1.6m in a bribery and tax evasion case that has severely damaged the government.

The sentence was lighter than the seven-year term demanded by prosecutors. South Korean law calls for a maximum penalty of life imprisonment for tax evasion and five years for bribery.

In anticipation of possible public criticism of the lenient sentence, the Seoul District Court said its "judges are well aware of many people's interest in this case, but the interest of the political community and the general public can not enter the court-room".

The panel of judges "made their decision in accordance with the law and their own consciences" and had not accepted all of the charges against Kim Hyun-chul.

Mr Kim was convicted of accepting nearly $3.5m in kickbacks from businessmen for arranging state licences for a cable TV station and motorway fast-food franchise, while evading taxes on a similar amount he received as gifts.

The May arrest of Mr Kim, who was known as the "crown prince" because of his role as close political adviser to his father, represented an irreparable blow to the government already mired in other corruption scandals.

The case damaged the credibility of President Kim – who had come to office vowing to clean up graft – with his popularity measured in single digits. The president's son was tried shortly after several top presidential associates were convicted in a bribes-for-loans scandal involving the collapsed Hanbo steel group.

Reverberations from Mr Kim's trial have also affected this year's election of a successor to President Kim, who is constitutionally barred from seeking another term, by increasing public disenchantment with those in power.

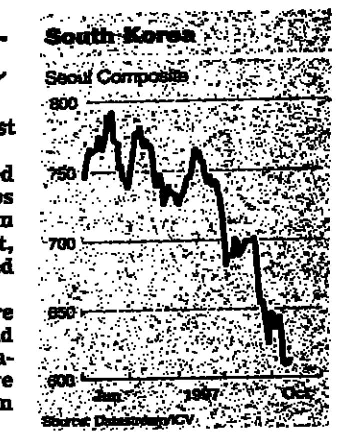
Allegations that two sons of the government presidential candidate, Lee Hoi-chang, had escaped compulsory military service by deliberately losing weight for their army medical tests has harmed Mr Lee's campaign. He is third in opinion polls for the December 18 election.

The ruling party has tried to capitalise on public anger over political corruption by accusing the presidential frontrunner, Kim Dae-jung who leads the centre-left opposition, of controlling a secret illegal $75m slush fund.

But the allegations may have backfired on the ruling party, which is being criticised for making unsubstantiated charges and engaging in political mud-slinging in a desperate attempt to stop the opposition leader.

Approval ratings for Kim Dae-jung have improved in the past week since the slush fund allegations were made, while those for Mr Lee have worsened.

South Korea relaxes laws to boost stock market



By John Burton

The South Korean finance ministry yesterday announced a package of measures to boost the Seoul bourse, which has fallen to a 55-month low.

But analysts predicted the measures will have little impact beyond the short term in rescuing the stock market, which has been hit by a string of big corporate bankruptcies this year.

The much-predicted moves included raising the foreign investment ceiling in a listed company to 26 per cent from 23 per cent on November 3 to increase market liquidity. In addition, capital gains tax exemptions will be granted to investors from Japan, Hong Kong, Germany, Singapore and Luxembourg to attract more foreign capital.

Foreign investment in the state-run enterprises, Korea Electric Power (Kepco) and Pohang Iron & Steel (Posco), will be raised to 21 per cent from 18 per cent. Individual foreign shareholdings in listed companies will be increased by one percentage point to 7 per cent, with the exception of Kepco and Posco. In a related development, the central bank also plans to provide Won4,000bn ($4.37bn) to financial institutions this week in an effort to ease tight liquidity that has raised corporate interest rates to 12.6 per cent.

But analysts said the measures will not impress foreign investors, who are worried about the possibility of more corporate bankruptcies amid a sluggish economy, raising interest rates and a fall in the currency.

"We are caught in a bear market and we probably haven't seen the bottom yet," said Richard Samuelson, branch manager for SBC Warburg in Seoul. He predicts a fall in the general share index to 550 before a recovery occurs.

The bourse fell by 1.2 per cent yesterday to end at 613 points before the measures were announced. The share index has dropped by more than 13 per cent in the last three months.

Other analysts predicted the market-boosting steps will attract only $500m in new foreign investment, only a fifth of that expected by the government.

Domestic investors are also not expected to respond aggressively to the measures since these have already been factored in recent share movements.

Japan's surplus shows 77% rise

By Paul Abrahams in Tokyo

Japan's current account surplus swelled year-on-year by 77.7 per cent to Y817.8bn ($6.8bn) during August, the fifth month that the politically-charged measure of trade in goods and services has risen. The surplus reflected stuttering domestic demand and a continuing export surge, assisted by the yen's weakness.

The dire state of Japan's domestic economy, which has hindered import growth, was underlined by a 4.7 per cent fall in private-sector machinery orders in August compared with July.

The Nikkei 225 average of leading stocks fell almost 1 per cent to 17,303 on the news. This was its lowest level since August 1995.

The data are likely to lead to renewed pressure from Japan's trading partners to ease fiscal policy in an effort to encourage domestic-led growth. The ruling Liberal Democratic party is expected to announce a series of measures to stimulate the economy next week.

The package, which has been widely leaked, is not expected to include a loosening of fiscal policy. Any cuts in corporate taxation are expected to be matched by a reduction in allowances and a possible broadening of the tax base. However, it will include measures to create greater liquidity in the troubled property market.

None of the expected policy changes is likely, even in the medium term, to stimulate domestic demand or slow export growth. In August, imports rose only 3.4 per cent while exports expanded 13.8 per cent.

Much of the export surge has been generated by the automotive industry. Exports of automotive products expanded 41.3 per cent by value during August, the sixteenth month they have risen. They were helped by the yen's weakness against the dollar. The average during August was Y117.9 compared with Y107.75 a year before.

However, Japanese automotive manufacturers are already taking measures to lessen the political impact of their export drive, in the US at least. Takemune Kimura, president of Mitsubishi Motors, yesterday said his company expected exports to North America to be flat in the 12 months to March 1998. Toyota is understood to be already holding back exports, particularly to the US. EU officials are concerned exports could be diverted to Europe.

Unfinished business in Bangkok

Ted Bardacke on the impact of a property market standstill on Thai banks

The skyline still gives the impression Bangkok is enjoying a construction boom. In spite of the burst in the property market bubble which largely precipitated Thailand's financial crisis, there are still scores of cranes lurking over unfinished buildings.

But focus a bit more and the illusion comes apart. Many cranes simply do not move. Thailand's boom and bust has come so fast that some unfinished buildings are being abandoned. About 20 per cent of new office space projected to come on the market over the next five years has been cancelled in the last six months, according to consultants Jones Lang Wootton.

And that's good news for developers, say property analysts. Bangkok's projected oversupply problem may not be as bad as at first thought. Vacancy rates are falling in the office market, while the number of unsold condominiums in central Bangkok has also declined.

But as Thailand today announces a long-awaited plan to restructure its creaking financial system, the unfinished buildings are a big problem. They have little chance of generating any revenue soon and therefore will eventually end up on the auction block.

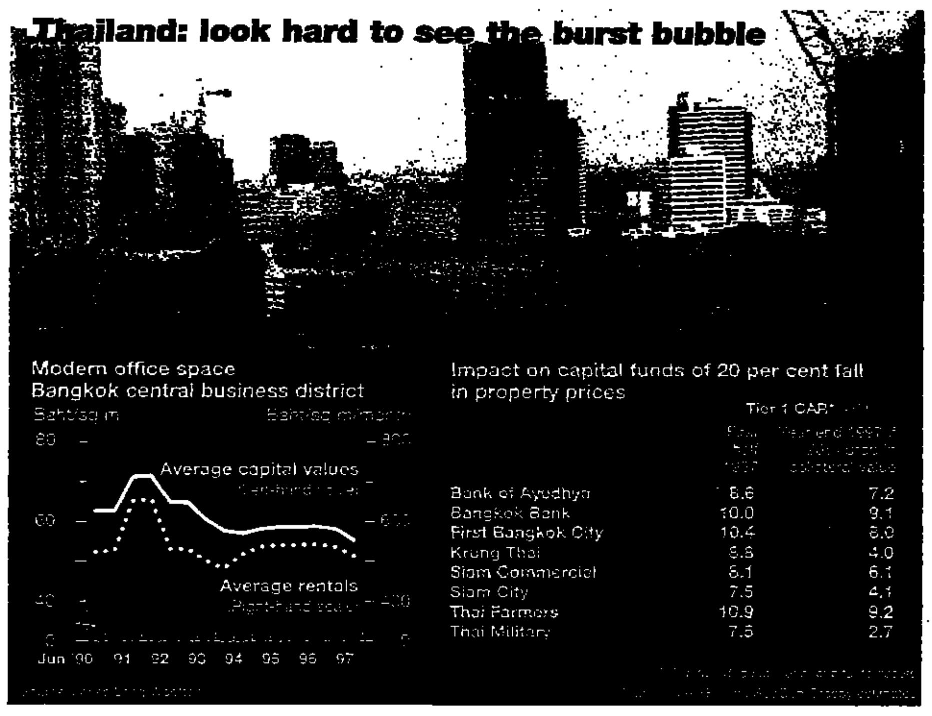
What will happen to collateral values is still largely a guessing game. Since Thailand's economic crisis began in earnest at the beginning of the year, not one big property transaction in Bangkok has taken place. In spite of all the turmoil, or perhaps because of it, property prices simply have not fallen.

"There are still no clear deals and therefore no base case," says Craig Plumb, director of research at JLW in Bangkok. "There are a lot of potential buyers... but instability in the currency market is not good for action. Most [buyers] believe it is better to wait for asking prices to fall further."

A few sales have been completed but only to related parties in deals that are a result of shifting assets within a diversified group – such as developer Ban Chang's sale of Glass House – or as part of a larger deal. Last month Dharmala Group of Hong Kong bought a large stake in Seamico Securities, a local brokerage house, for Bt175m ($4.8m) but only after Seamico bought a 3,000sq m Bangkok property for Bt84m, a price described by Mr Plumb as "fair and reasonable" but certainly not a big discount.

What is clogging up the market is that sellers are reluctant to realise losses. Sales agents say that before the baht devaluation, buyers were generally asking for a 30 per cent discount on the replacement cost of a building and being rejected. Since then, some sellers have been willing to take that 30 per cent hit, but buyers now want a 50 per cent discount.

Developers have often been able to wait because it can take up to a decade for banks to foreclose on property. That may change soon, as a new bankruptcy law promised by the end of this year will give banks quicker access to collateral.



Bankers say they are willing to take losses on repossessed properties and flush them through the market because they are well-cushioned against a fall in collateral values. Most commercial banks lend only 70 per cent of collateral value and value the collateral at about 80 per cent of market rates.

Bank also don't accept accounts receivable as collateral and some older properties they have managed to foreclose on have in fact appreciated in value, according to Michael de Santiesteban, banking analyst at SocGen Crosby.

Mr Santiesteban therefore believes the better provisioned banks should be able to withstand a 20 per cent fall in collateral value without having to raise capital. ING Barings estimates the cushion could be as high as 50 per cent.

A fall further than those levels, or if stricter provisioning requirements for bad debts are introduced today, almost all banks are going to raise capital. Already four middle-sized banks, Thai Military, Siam City, First Bangkok City, and Bangkok Metropolitan, and a number of smaller ones have announced their intention to do so.

For the top eight banks, Goldman Sachs expects recapitalisation to cost between $2.1bn and $5.8bn. Paribas Asia Equity puts the tab for the entire banking industry at $5.75bn.

HK investors queue up for China Telecom

By John Ridding in Hong Kong

Undaunted by a tumbling stock market and the humbling of a former "red chip" darling, investors flocked yesterday to subscribe for shares in China Telecom, the territory's latest, and by far the biggest, mainland-backed issue.

"Hundreds of people were queuing for applications," said an official at the Bank of China.

The US$4bn issue has prompted reminders of "red chip" fever, a buying frenzy which swept share issues by mainland-backed companies earlier this year. It is seen as a test of investors' appetite for Chinese equity against the backdrop of a falling stock market and a sharp downturn in sentiment for many mainland listings.

Shares in Beijing Enterprises, which was more than 1,000 times oversubscribed when it listed in May, fell by more than 13 per cent yesterday to the lowest point since its listing. The sharp decline was triggered by an unconfirmed press report that Beijing's municipal government, the controlling shareholder in Beijing Enterprises, is considering establishing another "window company" in Hong Kong.

That slide came amid a broader fall in the red chip index, which lost more than 6 per cent to close at 2,687. The Hang Seng blue chip index extended its recent decline, losing 1.4 per cent to close at 14,072.

Despite these falls, investment analysts cited strong support for the China Telecom issue, which is billed as the only vehicle for investment in the mainland telecoms sector.

"In the grey market it is still comfortably ahead of the HK$12.60 upper limit of the pricing range," said one analyst. "Relative to its peer group, and with the assets it has, I would much rather own this than many other red chips," said Archie Hart, director of equities at BZW Asia.

Like an increasing number of commentators, however, Mr Hart is wary about the prospects for the red chip sector. "Institutions have become disillusioned. Many bought these stocks on the prospect that red chips would secure cheap assets from the mainland," he says. "But in the past few months we have seen hardly any significant injections. Instead, they have been buying small stakes in second line Hong Kong companies. Institutions figure they could do that themselves if they wanted."

Thousands lose jobs in Chengdu

By James Harding in Shanghai

Tens of thousands of workers in Chengdu, a city in the south-west of China, have been made redundant this year after a series of state-owned enterprises have declared themselves bankrupt.

People's Daily, the official newspaper of China's ruling Communist party, reported yesterday that 50,000 people in all had lost jobs in the first half of this year in Chengdu. The report said 21,000 of the state enterprise employees dismissed had found new jobs thanks to government assistance.

The prominent announcement follows a pledge last month by President Jiang Zemin to speed up reform of loss-making state-owned enterprises, even at the cost of higher levels of unemployment among state workers in the short term.

A total of 16 state companies in Chengdu, capital of Sichuan province, declared themselves bankrupt in the first eight months of this year, incurring 16,000 redundancies, the report said.

The official statement coincided with a report from a US-based human rights group which said police in Zigong, another city in Sichuan, had used force to break up a demonstration last week by state workers. The report was denied by Chinese authorities.

Human Rights in China, a New York-based group, reported that roughly 300 workers at the Number Two Radio Factory in Zigong gathered to demand payment of wages that had gone unpaid for nearly one year and health expenses for two years.

"Government authorities assembled 50 fully armed police and more than 200 officers, who stormed into the protesters and used methods of force... to break up the demonstrators," according to Human Rights in China.

Officials at the city government in Zigong contacted by telephone yesterday denied knowledge of the protest. "The Number Two Radio Factory is a fairly good factory in Zigong. There is no wage problem. There is no delay in payment of wages," one said.

In a critical address to the Communist party congress last month, Mr Jiang promised China would speed up the reform of state-owned enterprises, leaving small and medium-sized businesses to face either bankruptcy, merger or independent survival in China's increasingly free market. Mr Jiang acknowledged that reform could be painful and result in increased redundancies.

Beijing is determined to keep official urban unemployment below 4 per cent. Li Boyong, labour minister, said last month that "although deepening economic reform will cause certain pressure on employment, it will by no means touch off social unrest."

Personal view, Page 16

INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	98.6	102.1	99.9	85.0
1987	105.6	100.7	103.9	98.4	76.1
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	108.5	109.9	101.9	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.3	74.0
1993	134.3	119.2	123.1	108.2	76.4
1994	137.8	119.9	126.5	108.0	74.3
1995	141.7	122.2	129.7	108.3	68.7
1996	145.8	125.4	133.9	108.1	73.3
4th qtr.1996	3.2	3.0	3.5	–0.5	74.3
1st qtr.1997	2.9	2.1	3.6	–0.1	77.9
2nd qtr.1997	2.3	0.4	2.8		78.1
3rd qtr.1997		–0.1			79.1
October 1996	3.0	3.1	3.3	–0.4	74.2
November	3.3	3.0	3.6	–0.9	73.6
December	3.3	2.8	3.7	–0.3	75.0
January 1997	3.0	2.5	3.0	–0.2	76.4
February	3.0	2.2	3.5	0.0	78.4
March	2.8	1.5	4.3	–0.2	79.0
April	2.5	0.8	2.8		79.3
May	2.2	0.4	3.0		77.6
June	2.3	–0.1	2.7		77.4
July	2.2	–0.2	2.7		78.3
August	2.2	–0.2			79.8
September		0.0			79.5

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	118.5
1987	101.3	92.5	103.1	100.0	122.8
1988	102.3	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.4
1995	115.9	92.0	132.5	115.8	138.3
1996	115.8	91.3	135.6	113.3	118.6
4th qtr.1996	0.1	–0.6	2.0	–3.4	114.0
1st qtr.1997	0.0	–0.3	5.2	–5.0	110.0
2nd qtr.1997	1.5	1.7	2.9	–4.5	114.2
3rd qtr.1997	1.7				117.5
October 1996	0.0	–0.8	2.8	–4.4	114.6
November	0.1	–0.6	2.5	–3.0	114.0
December	0.2	–0.4	1.4	–2.8	113.3
January 1997	0.0	–0.4	9.8	–8.8	111.3
February	0.1	–0.3	3.1	–2.1	108.1
March	0.0	–0.2	2.7	–6.0	109.5
April	1.2	1.8	2.6	–3.1	109.2
May	1.4	1.7	2.9	–5.1	114.4
June	1.9	1.8	3.0	–5.3	119.2
July	1.4	1.9			119.7
August	1.6				118.6
September	2.1				114.4

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.6	103.8	107.5
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.6	106.9	109.9
1989	104.2	99.3	117.1	108.0	107.5
1990	107.0	101.0	123.5	110.3	109.9
1991	110.9	103.4	131.3	109.7	107.5
1992	116.5	104.9	138.2	115.4	110.0
1993	121.7	105.1	145.6	119.3	111.3
1994	125.1	105.7	150.8	111.7	109.8
1995	127.4	107.5	155.8	110.7	114.7
1996	129.3	107.1		109.6	109.8
4th qtr.1996	1.4	–0.3		–4.6	107.8
1st qtr.1997	1.7	0.6		–5.8	106.2
2nd qtr.1997	1.6	1.1		–4.7	105.1
3rd qtr.1997	1.9				103.6
October 1996	1.5	–0.3	n.a.	–3.9	107.9
November	1.4	–0.3	n.a.	–4.9	108.2
December	1.4	–0.3	n.a.	–4.9	107.3
January 1997	1.8	0.7	n.a.	–4.9	106.7
February	1.7	0.6	n.a.	–7.6	105.9
March	1.5	0.7	n.a.	–5.0	105.7
April	1.4	0.9	n.a.	–5.9	105.3
May	1.6	1.1	n.a.	–4.0	105.2
June	1.7	1.4	n.a.	–4.0	104.6
July	1.9	1.4	n.a.		103.4
August	2.1	1.5	n.a.		103.1
September	1.9		n.a.		104.5

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	98.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.7
1988	108.8	102.9	111.5	104.1	102.1
1989	112.6	108.2	115.8	105.2	99.7
1990	116.5	107.1	121.5	109.6	102.9
1991	120.2	105.9	127.1	113.4	100.7
1992	123.1	104.3	132.3	115.6	104.2
1993	125.6	101.6	135.6	118.1	106.6
1994	127.7	102.7	138.2		108.1
1995	130.0	109.7	141.5		106.1
1996	132.6	105.8	144.9		106.2
4th qtr.1996	1.7	–3.9	2.6		105.8
1st qtr.1997	1.5	–2.6	3.0		103.4
2nd qtr.1997	0.9		2.7		102.6
3rd qtr.1997	1.3				100.2
October 1996	1.8	n.a.	n.a.	n.a.	106.4
November	1.6	n.a.	n.a.	n.a.	105.8
December	1.7	n.a.	n.a.	n.a.	105.0
January 1997	1.8	n.a.	n.a.	n.a.	103.2
February	1.6	n.a.	n.a.	n.a.	103.3
March	1.1	n.a.	n.a.	n.a.	103.7
April	0.9	n.a.	n.a.	n.a.	103.3
May	0.9	n.a.	n.a.	n.a.	102.7
June	1.0	n.a.	n.a.	n.a.	101.6
July	1.0	n.a.	n.a.	n.a.	99.5
August	1.5	n.a.	n.a.	n.a.	100.0
September	1.3	n.a.	n.a.	n.a.	101.0

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	106.1	99.4	104.8	102.6	101.3
1987	111.0	102.2	111.6	105.5	102.1
1988	116.5	105.7	118.4	108.7	100.9
1989	124.2	112.0	125.6	112.3	105.1
1990	131.7	116.2	134.7	118.8	111.9
1991	140.3	120.0	147.9	129.6	113.1
1992	147.7	122.3	155.9	134.5	109.5
1993	153.9	126.9	161.8	136.9	95.2
1994	160.0	131.6	167.0	138.1	93.3
1995	168.6	142.0	172.2	138.1	90.3
1996	175.0	144.7	175.3		101.9
4th qtr.1996	2.7	0.8	1.6		104.7
1st qtr.1997	2.4	0.9	3.9		104.0
2nd qtr.1997	1.6	1.2	3.8		102.0
3rd qtr.1997	1.5				101.1
October 1996	3.0	0.7	1.5	n.a.	104.7
November	2.6	0.9	1.5	n.a.	104.1
December	2.6	0.9	1.8	n.a.	105.4
January 1997	2.6	0.9	3.9	n.a.	106.0
February	2.4	0.8	3.9	n.a.	103.8
March	2.2	0.9	4.0	n.a.	102.0
April	1.7	0.8	3.9	n.a.	102.0
May	1.6	1.1	3.8	n.a.	102.2
June	1.4	1.6	3.7	n.a.	101.9
July	1.6	1.7		n.a.	101.5
August	1.5			n.a.	100.6
September	1.4			n.a.	101.3

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	103.9	94.3
1987	107.7	104.9	116.3	106.2	94.6
1988	113.0	108.7	126.2	108.8	101.9
1989	121.8	113.9	137.2	114.1	100.5
1990	133.3	121.0	150.1	121.6	101.4
1991	141.2	127.5	162.4	127.9	104.4
1992	146.4	131.5	173.1	128.2	100.9
1993	148.7	136.7	180.9	127.6	93.1
1994	152.4	140.1	189.5	127.1	94.1
1995	157.6	146.0	198.0	131.7	90.7
1996	161.5	149.8	206.8	138.8	93.6
4th qtr.1996	2.6	2.0	4.6	4.7	99.5
1st qtr.1997	2.7	1.2	4.4	3.3	105.6
2nd qtr.1997	2.7	1.0	4.2	2.9	108.3
3rd qtr.1997	3.5	1.4			111.9
October 1996	2.7	2.3	4.0	4.9	96.0
November	2.7	2.1	4.7	5.2	100.1
December	2.5	1.6	5.1	4.0	102.4
January 1997	2.8	1.5	4.2	3.8	104.8
February	2.7	1.2	4.8	3.2	106.1
March	2.6	1.0	4.3	3.0	106.0
April	2.4	0.8	4.0	1.8	108.0
May	2.6	1.0	4.3	3.7	107.6
June	2.9	1.1	4.4	3.3	109.2
July	3.4	1.3	3.9	2.2	114.1
August	3.5	1.5			111.8
September	3.6	1.4			109.5

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted; refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Japan's surplus shows 77% rise
By Paul Abrahams in Tokyo

VOW ON LATIN AMERICAN INTEGRATION

Clinton praise for region's democracy

By Raymond Colitt in Caracas

President Bill Clinton yesterday praised Latin America's advances in strengthening democracy and market economies, and promised to renew US efforts to push ahead with regional integration.

His speech in Venezuela, at the beginning of a week-long trip through South America, was intended to showcase the benefits of trade with Latin America and address concerns in the US Congress over the region's readiness for trade pacts with the US.

"Every nation in the Americas but one has embraced democracy, giving its people a vibrant free press, free elections and the rule of law. Decades of coups and bloody civil wars have given away to the peaceful transition of power. Stifling command economies have been replaced by free markets," said Mr Clinton.

In an apparent allusion to US congressional concerns about authorising fast-track trade negotiations, Mr Clinton also highlighted the efforts of Venezuelan President Rafael Caldera in the fight against corruption and drugs. The US administration wants fast-track to pursue trade pacts with Chile and then other South American nations.

"I am seeking the fast-track negotiating authority from Congress that every American president has had for over 20 years so we can work with our partners to open markets, create jobs and raise living standards for all," said Mr Clinton.

In press briefings to US journalists accompanying Mr Clinton, cabinet members underscored the close and beneficial trade links with Latin American countries.

"For every 1 per cent growth in Latin American economy, US exports are over $5bn in terms of goods and services to Latin America, and those support 100,000 jobs in the United States," said Federico Peña, US secretary of energy. He pointed to the large investment opportunities for US oil companies in Venezuela.

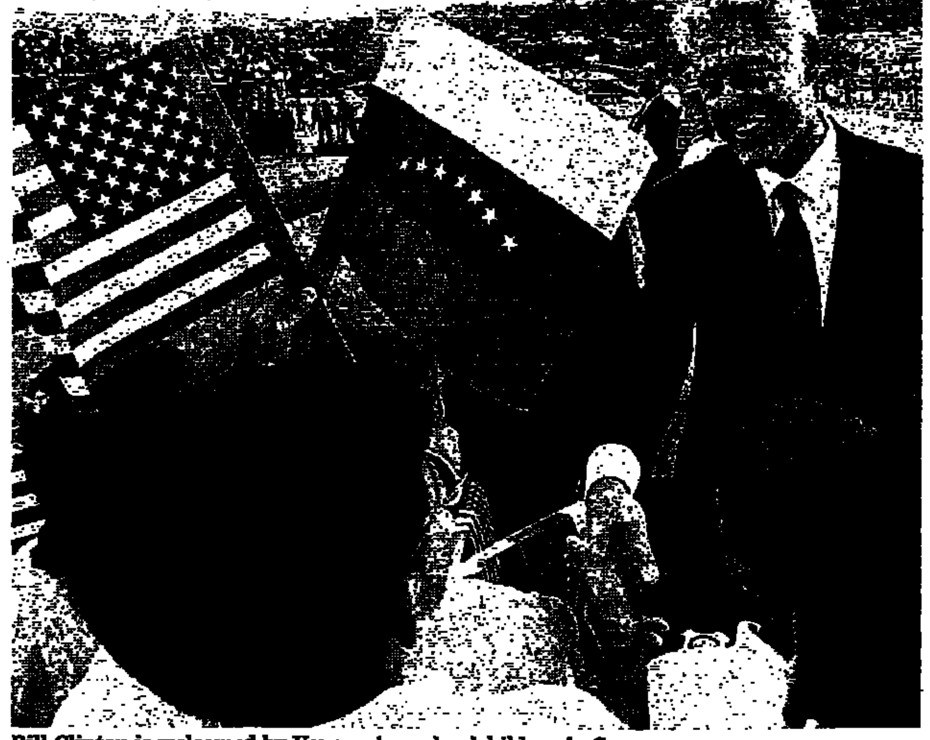
Oil giants, including Exxon, Texaco, and Mobil, are part of a $30bn oil advance into Venezuela.

The US has emphasised that Venezuela is its main supplier of oil, and through its state oil company Petroleos de Venezuela (PDVSA), the seventh-largest investor in the US. Venezuelan exports to the US are approximately $13bn.

For Venezuela, Mr Clinton's 28-hour stopover was a welcome recognition of its status as the region's principal energy supplier. But the two countries failed to reach a final agreement on investment protection and double taxation, instead pledging to continue talks.

The US had linked the talks to Venezuela's progress on intellectual property right protection, on which Caracas asked to be recognised for what it called a "best effort". "A double tax treaty is important but implies a series of conditions vital to our national interests," said Mr Caldera in an interview.

The rewards of hardship and reform, Mr Clinton told a crowd in Caracas in reference to recent austerity measures, "will pay off in more jobs, higher income, and better prospects for your children in the coming century."



Bill Clinton is welcomed by Venezuelan schoolchildren in Caracas — Reuters

Valley leads moves to leave LA

By Christopher Parkes in Los Angeles

Efforts to establish break-away cities in California, which could rob Los Angeles and other established centres of vital tax-raising and spending powers, have been given fresh impetus by a law signed into effect at the weekend.

The legislation overturned a 20-year-old statute which gave city councils power to veto so-called detachment applications regardless of voter opinion.

Activists in the San Fernando Valley, a sprawling suburban area in the north of LA, yesterday started planning a secession petition which would cut links with a city hall administration which they say has consistently neglected their needs.

Their campaign reflects popular concerns elsewhere in the US that often depressed inner-city areas absorb too much revenue and administrative attention.

Some critics claim such attitudes represent a new variant of "white flight", which created new suburbs and emptied out city centres nationwide in the 1960s and 1970s.

They also point out that the fragmentation of authority is likely to make urban problems, such as the establishment of workable mass transit systems, harder to resolve.

The middle-class valley, main source of the pressure for change, is home to about 1.3m of LA's 3.6m residents, and viewed by city authorities as vital to the city's financial well-being. A successful breakaway would create the sixth largest city in the nation.

Despite the secessionists' apparent victory, backers of the bill stressed many obstacles remained, and Pete Wilson, state governor, said that although the law permitted detachment it did not make it any easier.

Tom McClintock, a Republican assemblyman, who started his campaign for change in last year's legislative session, said the "fundamental right of self-governance had been restored."

Mr Wilson clamed the law marked a return to majority rule and self-determination.

However, the legislation – which was opposed to the end by the League of California Cities – may at least give suburbs a stronger voice in urban affairs.

The main obstacles to secession, which has struck chords in other parts of LA, including Venice and Westchester, include the need for separate majority votes in favour from both the would-be new city and Los Angeles as a whole.

The new administrative area and the rump of the original city would also be required to pass the test of financial viability.

Hispanic-American growth 'underestimated'

By Bruce Clark in Washington

The purchasing power of Hispanic-Americans is likely to treble by the year 2010, and the community's rate of expansion has been underestimated by marketing experts, politicians and sociologists, said a report issued yesterday.

The report by the Aspen Institute, a non-profit think-tank, said the country's 7.6m Hispanic households consumed about $323bn a year, and the figure was likely to reach $965bn in 12 years.

The study warned of a growing backlash among an ageing population of white, English-speaking citizens unless more was done to promote the ideal of harmony across linguistic and racial barriers.

"As diversity grows, so will the number of US citizens from all walks of life and all racial and ethnic groups who feel threatened and blame each other for what they perceive to be the downsides of change," said Harold Hodgkinson, the report's main author.

As evidence for a more general mood of pessimism, he cited an opinion poll showing that 60 per cent of Americans believed the next generation would be worse off.

By the year 2050, Hispanics would account for a quarter of the US population at 96m on current demographic trends. With steady rises in the Asian-American community and those of mixed race, there would no longer be a white majority in the country.

Immigration from Latin America and Asia was one of the few factors likely to save the country from the prospect of a decline in population, which might otherwise start around 2020, the report found.

It said the birth rate among the white community was 1.7 children per female citizen, against 3.4 among Hispanics and 2.8 among African-Americans. A rate of 2.1 was necessary as necessary to maintain the population over time.

Sol Trujillo, president of the Denver telecoms company US West Communications and one of the report's sponsors, said it was a "call to action" by business, advertising and the media.

"The Challenges of Change" by the Aspen Institute. Available from the Hispanic Policy Development Project, 1001 Conneticut Ave, North West, Suite 901, Washington DC 20036

Kennard (centre) takes over from Hundt (left). Right: new board member Tristani

New telecom chief to pursue competition

Many issues face William Kennard, incoming US communications commission chairman

For months Reed Hundt, outgoing chairman of the US Federal Communications Commission, has been complaining of a "dense lawyerly fog" pervading the telecommunications and broadcast industries, so it is perhaps appropriate his likely successor is a career lawyer with a lifetime's experience in the field.

Few could be more qualified than William Kennard, whose nomination was last week approved by the Senate Commerce Committee and is shortly expected to be confirmed along with three other new commissioners by the full Senate.

After a stint with the National Association of Broadcasters and time as a private-sector telecoms lawyer, he has spent the past three years as general counsel of the FCC gaining experience and expertise at what has become perhaps the highest profile regulatory agency in Washington.

But with discontent growing about the slow pace of competition resulting from last year's landmark Telecommunications Act, controversies emerging in areas from television ratings to cable charges, and new lawsuits against the FCC sprouting virtually by the day, it is experience that will be tested to the full.

By far the most important issue facing Mr Kennard and his new Commission – the other members will be Susan Ness, the only incumbent; Gloria Tristani, a state utility regulator; Harold Furchtgott-Roth, a Senate economist; and Michael Powell, an anti-trust official and the son of Colin Powell, the retired general – is dealing with the aftermath of the new act, intended to usher in a new era of competition, lower prices and improved service.

Rapid industry consolidation has raised concerns in Congress that the opposite may happen, and progress has been slow. "The law has just not lived up to the rhetoric that accompanied its passage," John McCain, head of the commerce committee, warned at the confirmation hearings.

That is a sentiment shared by Mr Hundt, who has taken a high profile in seeking to use the FCC's powers to force local monopoly providers – the Baby Bells – to open up to competition.

But some lawmakers feel the FCC has been too aggressive in its approach, and earlier this year the agency's attempt to structure the prices the Baby Bells charge rivals for use of their systems was struck down by the courts.

> There is growing discontent over the slow pace of competition resulting from last year's landmark Telecoms Act

Since then, Mr Hundt has lobbied hard for Congress to take action to remedy the problem. He has also sought to reintroduce the pricing methods through other means, such as making them a condition for allowing local phone companies to enter the long-distance market or approving mergers.

That, however, has further raised the ire of local telephone companies and some state regulators, who are challenging the FCC's attempt to introduce its regulations in this manner in new court cases.

Seen within both the industry and the FCC itself as a man who shares Mr Hundt's basic approach but has a less combative personal manner, Mr Kennard and his fellow nominees signalled during confirmation hearings that they plan to try to solve the problems by working within the confines of the existing act rather than lobbying to change it.

The new commission is also under pressure to respond to congressional concerns over protection of "universal service" provisions, intended to ensure consumers receive comparable prices and service availability in different parts of the country.

Several lawmakers from rural states fear competition is focusing disproportionately on urban areas and businesses, and one senator on the commerce committee – Ted Stevens of Alaska – declined to endorse Mr Kennard until he receives more assurances on the FCC's intention to act on the issue.

Outside of telecoms, the FCC faces other problems ranging from consumer protests over rises in cable rates, and the need to restructure controversial bandwidth auctions, to making rulings on proposed corporate mergers, such as WorldCom's proposed $30bn bid for MCI.

It will also have to navigate sensitive political issues, such as monitoring the new TV rating system which grades television programmes by sex, language and violence.

But simultaneous appointment of four new commissioners – three with little track record in the field – is unprecedented.

That means the final approach the new FCC will take on most issues remains unclear.

"We're all just waiting to see," admitted one agency official. Amid the uncertainty, two things are apparent about the incoming commission's tenure: it will not be uneventful, and will involve a lot of time in court.

Mark Suzman

Progress Report

FULFILLING OUR COMMITMENT

The Swiss banks are achieving significant progress towards resolving the issue of dormant World War II-era accounts in a fair and open manner.

Our major initiatives to date include:

■ Identifying Dormant Accounts

The Swiss banks are committed to identifying all accounts that could have belonged to victims of Nazi persecution.

In addition to conducting their own search for dormant accounts, the Swiss banks are providing complete access and assistance to hundreds of forensic auditors working for the Independent Committee of Eminent Persons, chaired by Paul A. Volcker and comprised of prominent Jewish and Swiss leaders.

■ Helping Needy Holocaust Survivors

The Swiss banks are committed to helping needy Holocaust survivors.

Earlier this year, the three largest Swiss banks, Credit Suisse, Swiss Bank Corporation and UBS, contributed 100 million Swiss francs ($70 million) to establish a special fund for victims of the Holocaust. Other Swiss banks and Swiss industry have since contributed an additional 80 million Swiss francs ($55 million). With a pledge of 100 million Swiss francs from the Swiss National Bank the fund now has a total of 280 million Swiss francs ($194 million). The Fund's board consists of representatives of Jewish organisations and private Swiss citizens and is chaired by Rolf Bloch, leader of the Swiss Jewish community. Proceeds from the Fund will soon be distributed to Holocaust survivors in Eastern Europe.

■ Publishing Dormant Accounts

The Swiss banks are committed to publishing dormant accounts.

In July, the Swiss banks published an initial list of World War II-era dormant accounts of non-Swiss customers in newspapers around the world and established an Internet site. The Swiss banks also established five international contact offices staffed by representatives of the accounting organisation of Ernst & Young which was engaged to help rightful owners file claims.

■ Creating An Expedited Payment Process

The Swiss banks are committed to returning assets to their rightful owners quickly, easily and without cost to claimants.

To accomplish this objective, the banks have established a cost-free, expedited payment process, which is being supervised by an independent, international panel operating under relaxed standards of proof. Claims from the July list are now being processed and payments will be made shortly.

This progress demonstrates the seriousness of the Swiss banks which are among the first to address and to resolve this complex issue.

New Information Available
On October 29, the following World War II-era accounts will be published:

- Dormant passbooks and savings accounts of *non-Swiss* citizens.
- Dormant accounts of *non-Swiss* citizens that have been identified as a result of the Swiss banks' ongoing search.
- Dormant accounts belonging to *Swiss* citizens.

Call Our Contact Offices
If you wish to review these lists, please fill out the Information Kit Request Form and mail it to the nearest Ernst & Young contact office listed below. You will receive an Information Kit that includes the lists, fully describes the claims process, and explains how to file a claim.

- Ernst & Young LLP, Dormant Accounts
  P. O. Box 1880, Radio City Station, New York, NY 10101-1880, U.S.A., Tel. +1 212 344 0610
- Kost Levary and Forer, Dormant Accounts
  2 Kremenetski Street, Tel Aviv, Israel 67899, Tel. +972 3 623 2559
- ATAG Ernst & Young, Dormant Accounts
  Aeschengraben 9, P. O. Box 2149, CH-4002 Basel, Switzerland, Tel. +41 61 272 08 11
- Ernst & Young Kft, Dormant Accounts
  1146 Budapest, Hermina út 17, Hungary, Tel. +36 1 343 5117
- Ernst & Young, Dormant Accounts
  The Ernst & Young Building, G. P. O. Box 2646, Sydney, N. S. W. 2001, Australia, Tel. +61 2 9248 5736

If you have already received an Information Kit from Ernst & Young, an updated kit will be mailed to you automatically.

Use Our Freephone Number Or Web Site
If you have any questions or need assistance, please call the following Freephone number:
0800-731-0451.

You can also search for dormant accounts and review other pertinent information at the Swiss Bankers Association's Internet site:
http://www.dormantaccounts.ch

Information Kit Request Form

Please send me information about the Claims Process:

Name ____________________

Street ____________________

Town __________ County __________ Postcode __________

Country ____________________

Daytime Phone: ____________________

Please specify preferred language:

☐ English	☐ Yiddish	☐ Hebrew	☐ German	☐ Spanish
☐ Czech	☐ Hungarian	☐ Italian	☐ Polish	☐ French
☐ Portuguese	☐ Romanian	☐ Russian	☐ Bulgarian	☐ Dutch

SWISS BANKERS ASSOCIATION

SWISS BANKERS ASSOCIATION
SCHWEIZERISCHE BANKIERVEREINIGUNG
ASSOCIATION SUISSE DES BANQUIERS

NEWS: WORLD TRADE

NEWS DIGEST

Seoul chooses French missile

South Korea yesterday announced that it had chosen France's Mistral portable anti-aircraft missile system rather than rival bids by the US Stinger and British Starburst systems. The French contract, valued at Won250bn $273m for 1,000 missiles, represents an effort by Seoul to gain foreign technology and reduce its dependence on US suppliers as it develops its own arms industry.

Although the Mistral is twice as expensive as the Stinger, Matra-BAe Dynamics, its contractor, is believed to have offered more generous technology transfer terms than its competitors. South Korea is planning to develop its own portable anti-aircraft missiles based on Mistral technology. It is the second Korean order for the Mistral missile in the last decade.

South Korea now buys four-fifths of its weapons from the US, but has complained about technology transfer restrictions imposed by Washington. Seoul had shown increased willingness to procure arms from other nations despite worries about the compatibility of weapons used by South Korean and US troops stationed there. Seoul is expected to decide by 1999 whether to purchase the US Patriot air defence missile or the S-300 system offered by Russia, while it is reviewing US, Russian and French aircraft for its next-generation fighter. *John Burton, Seoul*

■ BA-AMERICAN ALLIANCE

Congress plea to Van Miert

Twenty-five members of the US Congress have urged Karel Van Miert, the European Union competition commissioner, not to be too harsh on the proposed British Airways-American Airlines alliance. In a letter to Mr Van Miert, the 25 said: "Authorities from the US, UK and EU must be careful not to make the terms under which this alliance can go forward so onerous that the parties walk away instead." The group said they would also be writing to the US and UK governments.

The 25 said approval of the alliance would be accompanied by a UK-US "open skies" agreement which would increase competition. The letter said: "The review of the proposed alliance needs to be expedited in order to finalise a landmark open skies agreement between the two countries." *Michael Skapinker, Aerospace Correspondent*

■ MEXICAN PRIVATISATION

Three to bid for satellites

Three groups registered yesterday to bid for the privatisation of Mexico's satellites. The bidders are GE American Communications, a subsidiary of General Electric, in partnership with ControlSat, a Mexican company; PanAmSat, a US satellite operator, with Industrias Peñoles, a Mexican mining group; and Loral Space and Communications of the US with Telefónica Autrey, a small Mexican telecommunications company.

The sale of the government's 60 per cent stake in Mexico's three satellites is expected to raise several hundred million dollars because of a protocol signed last year between the US and Mexico which permits each country to beam satellite television to the other. The winner, to be announced in early November, will be given the option of acquiring a further 15 per cent of SatMex.

The government's remaining stake will be sold on the stock market. *Leslie Crawford, Mexico City*

US and EU try to square sanctions circle

American attempts to curb 'rogue' states are causing a rift with Europe, writes Guy de Jonquières

US and EU negotiators meet in Brussels today in a race against the clock to prevent the most menacing transatlantic trade conflict for years erupting into open war.

Tomorrow evening, a fragile truce is due to expire in their dispute over the US Helms-Burton anti-Cuba law and the Iran-Libya sanctions act (Ilsa). The laws, enacted last year, aim to tighten pressure on what Washington calls rogue states by penalising foreign companies that invest in them.

The EU and US called the truce in April, when they gave themselves six months to hammer out a settlement. But this week's meeting is expected to yield little more than an agreement to extend the deadline.

Although the two sides have narrowed some differences, they remain far apart over a US demand for international action to stop companies profiting from illegally confiscated assets. The EU is prepared to accept a ban on future expropriations – but is resisting US insistence that it also cover past ones.

Agreement has also yet to be struck on EU demands that the US exempt European companies from sanctions under Helms-Burton and Ilsa, and forswear further extra-territorial legislation.

As a result, the priority for both sides this week will be somehow to show that enough progress has been achieved to justify continuing their negotiations – and avoid resorting to force.

Brussels needs a politically credible reason to postpone reinstating its challenge to Helms-Burton in the World Trade Organisation. The EU suspended the case in April, but threatened to revive it if no settlement was reached with Washington by now. The US administration, for its part, needs to justify to Congress President Bill Clinton's repeated decisions to suspend application of Helms-Burton.

However, hopes that an extension of the talks might eventually lead to a breakthrough were dealt a serious setback this month when Total, the French energy group, signed a $2bn gas contract with Iran. The project – which also involves Gazprom of Russia and Petronas of Malaysia – is in defiance of Ilsa, which calls for sanctions on foreign companies investing more than $20m in Iran's energy industry.

The EU has said US sanctions on European companies under Ilsa could trigger resumption of its WTO complaint against Helms-Burton. That would sharply escalate the confrontation with Washington, which claims the WTO has no jurisdiction over the anti-Cuba law.

The State Department has opened an investigation into the Total deal, but is expected to spin it out while seeking a diplomatic solution. Its efforts focus on a clause in Ilsa which entitles the US president to waive sanctions on countries which have acted to deter Iran from engaging in terrorism and accumulating weapons of mass destruction.

But although Washington's conciliatory signals have bought time, both sides appear to have boxed themselves into positions from which it will be hard to escape.

President Clinton said only last month that the EU had not yet done enough to qualify for a waiver. But the US has not spelled out what more it wants the EU to do – not least because that would risk prompting European governments to dig in their heels.

"The situation is incredibly delicate," says a European diplomat. "We have already moved as far as we can to put pressure on Tehran. If there is any hint the US is bullying Europe into doing more, as the price for settling the sanctions conflict, the French and other governments will go berserk."

Some advisers to Sir Leon Brittan, the trade commissioner, are urging him to seize the US olive branch, saying the EU must give President Clinton the arguments he needs to persuade Congress to go along with sanctions waivers. But others are more hawkish, arguing that it not up to Europe to make concessions to solve a problem of US making.

One way out of the dilemma might be to pursue a solution outside the framework of trade negotiations – possibly in the regular talks between the US, Europe and Canada on security policy towards Tehran. But even if that created more common ground, it could be difficult to present any movement by Europe as a spontaneous initiative, and not as capitulation to US pressure.

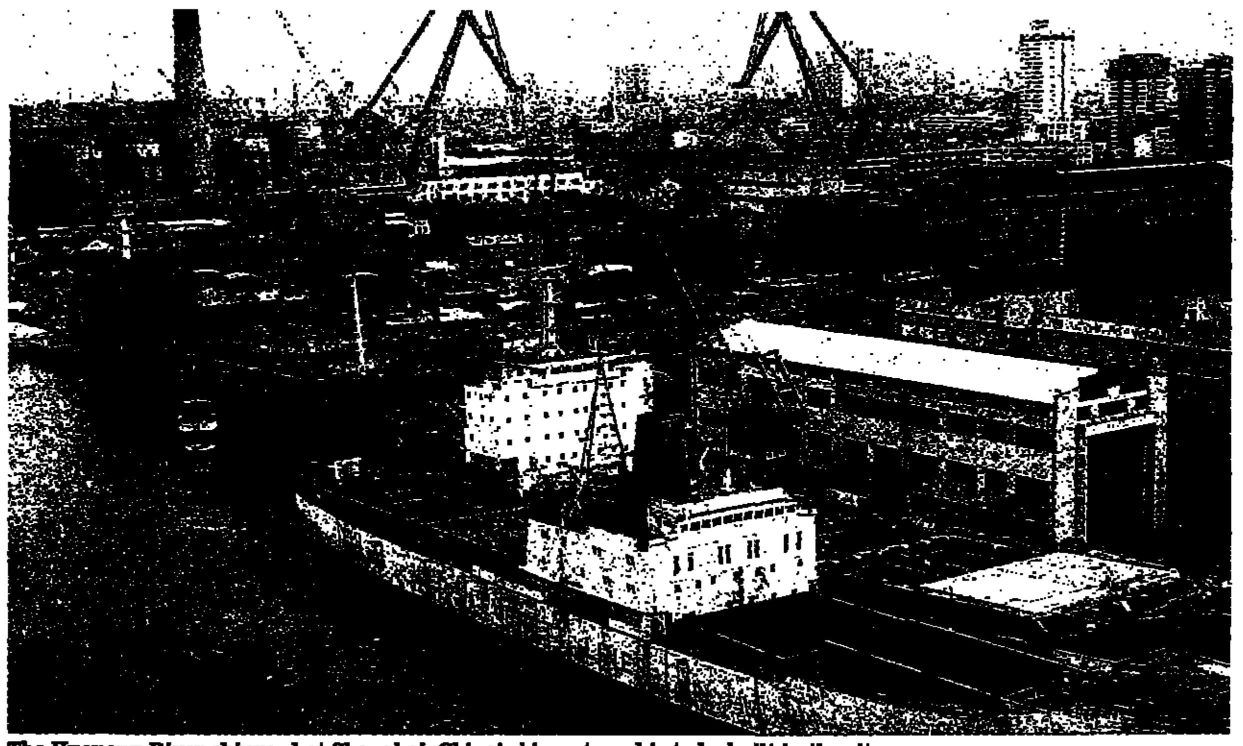
Furthermore, the clock is ticking. The EU's WTO case, its strongest lever on the US, expires in April. The Organisation for Economic Co-operation and Development is due to conclude that month a draft treaty on direct investment rules, which is supposed to enshrine a settlement of the US-EU dispute on Helms-Burton and Ilsa.

In May, President Clinton will visit Europe for the G7 and US-EU summits, and may attend a WTO ministerial conference. Failure to resolve transatlantic trade differences could poison the atmosphere at all these meetings. "That means the spring is the last opportunity for a deal," says a European diplomat. "But right now, I can't see how we can get one, unless Fidel Castro obligingly drops dead, or Tehran is suddenly overcome by sweet reason."

Iran airline buys two Airbuses

Iran Asseman Airlines, the country's second largest state carrier, has signed a contract to buy two Airbus Industrie aircraft for $40m, *Reuters reports from Tehran.* "The aircraft will be delivered next year," said Ali Abedzadeh, the company's managing director.

Asseman had also bought two ATR-72 aircraft and was negotiating to buy more from the Franco-Italian company, he added. ATR (Avions de Transport Regional) is a joint venture between France's state-owned Aerospatiale and Alenia, a unit of Finmeccanica, the Italian defence group.



The Huangpu River shipyard at Shanghai: China's biggest yard is to be built in the city

Brazilian minister to run for top WTO job

By Frances Williams in Geneva

Filipe Luiz Lampreia, Brazil's foreign minister, has let it be known he is in the running for the top job at the World Trade Organisation when Renato Ruggiero stands down in May 1999.

Mr Ruggiero was appointed in 1995 for a single term and on an understanding between Washington and Brussels that the next WTO director-general would be non-European, most likely from a developing country. Mr Ruggiero, a former Italian trade minister, followed four European heads of Gatt, the WTO's predecessor.

Mr Lampreia is a former WTO ambassador and highly regarded in Geneva and around the world. Other names are also being canvassed informally before the contest starts next year.

Trade diplomats said yesterday they did not expect candidates to declare themselves officially until after next May's ministerial meeting in Geneva, which will also mark the 50th anniversary of the international trading system.

Possible rivals to Mr Lampreia include Supachai Panitchpakdi, former deputy prime minister of Thailand; Rafidah Aziz, Malaysia's trade minister, and Mike Moore, former New Zealand prime minister.

From Latin America, Enrique Iglesias, Uruguayan head of the Inter-American Development Bank, and Ricardo Garcia, Chile's economy minister, have been mentioned, as has Jaime Serra Puche, former Mexican trade minister.

Trade officials said yesterday that, while Mr Lampreia appeared to have excellent qualifications for the WTO post, he could be handicapped by US and EU reservations over Brazil's stance on international trade.

Mr Lampreia could face another obstacle if Juan Somavia, Chile's ambassador to the UN, takes over from Michel Hansenne at the International Labour Organisation in spring 1999. The appointment of Latin Americans to both top jobs would arouse resentment.

Pirate products rise by 50% in Vietnam

By Jeremy Grant in Hanoi

Vietnam saw a 50 per cent jump in the amount of counterfeit goods on sale nationwide in the first seven months of the year, despite efforts by the government to crack down on imitators, the semi-official Vietnam Investment Review (VIR) said yesterday.

Vietnam raised hopes that it would crack down on rampant piracy in April when it signed an intellectual property pact with the US, but the latest figures appear to indicate that enforcement has been weak.

Although the ministry had pursued 1,500 cases of illegal trading and piracy, Le The Bao, a ministry official, said: "The seizures account for only a small percentage of the huge amount of counterfeits which are circulating in the market."

He said staff shortages prevented the ministry from tracing where counterfeit goods were produced.

Foreign consumer goods manufacturers regularly complain that their products are being undercut by brands smuggled through Vietnam's porous borders with China, Cambodia and Laos.

The VIR said about 30 per cent of fake goods sold domestically entered Vietnam from those countries. Another 30 per cent was made in Vietnam and sold under foreign brand names.

Microsoft of the US estimated last year that Vietnam has a 99 per cent software piracy rate.

Other products threatened are beverages, cosmetics, clothing, electronic goods, detergents and pharmaceuticals.

Early this year, Proctor & Gamble of the US said it was losing up to 25 per cent of its business to counterfeiters and smugglers.

"It's a significant problem that's threatening our brands," said a foreign tobacco company official in Ho Chi Minh City.

"The problem is the [anti-counterfeit] procedures are very cumbersome and this creates a window of opportunity for people to make a quick buck."

China aims to double share of shipbuilding

By James Harding in Beijing

China aims to double its share of the world shipbuilding market over the next few years, following approval of plans to build the country's largest shipyard in Shanghai.

The shipbuilding centre, due to be completed around the year 2000, will cost Yn4.71bn ($568m) in its first phase and add the capacity to produce 1.8m dw tonnes of vessels each year.

China is the world's third biggest producer of ships, taking a 5 per cent share of the international shipbuilding market which Beijing hopes will have increased to 10 per cent by early next century, Chinese government calculations show.

The expansion in production capacity coincides with a restructuring in China's state-owned shipbuilding industry, intended to increase efficiency and lift exports.

Xu Penghang, recently appointed president of the China State Shipbuilding Corporation (CSSC), said the company planned to form "internationally competitive groups through mergers and acquisitions".

CSSC is China's leading shipbuilder, owning 100 subsidiaries and shipyards and accounting for the majority of Chinese shipbuilding capacity. But the industry is split into 1,375 smaller building and repair companies.

Mr Xu said CSSC aimed to combine these resources to create large shipbuilding units, but will attempt to stay focused on competency and technical capability.

The Shanghai shipyard, now approved by the State Council, China's cabinet, is intended to boost the competitiveness of the industry for what officials expect will be a "head-on battle for market share".

Last year, CSSC recorded export earnings of $1.3bn, as 85 per cent of the 1.9m dw tonnes of ships produced were sold to overseas buyers. In the first eight months of this year, the proportion and volume of CSSC exports has risen further. CSSC has orders for 5m dw tonnes of shipping, which will take until 1999 to complete.

The shipyard, to be built in the manufacturing and export zone of Shanghai's Pudong district, will be funded by the government, CSSC, Baoshan Iron and Steel Corporation, one of China's biggest industrial companies, and the Shanghai municipal government.

Commission to press case for duties on Asian fax machines

By Neil Buckley in Brussels

The European Commission is still considering imposing anti-dumping duties on personal fax machines from Japan and six other Asian countries – even though most European Union states oppose the move.

Brussels' anti-dumping unit is pressing for the highly controversial duties, mostly of 20 to 30 per cent but ranging as high as 89 per cent in one case, to be adopted by the Commissioners next week – before a deadline for action of November 1. Sir Leon Brittan, the trade commissioner, is understood to be considering the recommendation.

Brussels can impose provisional duties for six months without formal consent from EU ministers, though it must consult an advisory committee of EU states' representatives. Ministers vote after six months on whether to turn the measures into definitive, five-year duties.

The anti-dumping unit proposed the duties last month, after an investigation backed a complaint by Philips of the Netherlands that Asian producers were importing personal fax machines at below-cost prices into the EU.

But an advisory committee meeting this month found only five EU states, including Austria, France and the Netherlands, in favour. Eight were against, with two undecided. Many states complained they were unhappy with the Commission's proposals and important questions were unanswered.

But several said their main objection was the definition of fax machines involved – those weighing less than 5kg.

They feared that as technology improved and faxes shrank in size, the definition could include many office as well as personal machines.

The Commission believes it can win over opponents by pressing ahead with the planned measures, but – in a highly unusual move – revising the definition before the duties have to be confirmed by ministers after six months. It might, for example, restrict the measures to faxes using thermal paper, rather than laser printers.

Protestants attack premier for breaking 70-year taboo but aides ensure Sinn Féin meeting not caught on camera

Blair jeered after historic handshake

By John Murray Brown in Belfast

Tony Blair, the UK prime minister, was jeered and jostled by Protestant demonstrators yesterday after breaking a 70-year taboo by meeting Gerry Adams, the leader of Sinn Féin, the political wing of the Irish Republican Army.

After the first meeting between a British prime minister and a senior figure in Sinn Féin since 1921 – when Lloyd George met the IRA commander Michael Collins – Mr Blair was briefly forced to take refuge from the hecklers in a bank.

One angry woman at the shopping centre in east Belfast, the Northern Ireland capital, threw a plastic glove at the prime minister to vent her disgust at his decision to shake Mr Adams' hand at the peace talks.

Mr Blair, who was on his second visit to the region since becoming prime minister in May, faced a delicate balancing act in meeting the government's commitment to treat Sinn Féin like any other party without antagonising pro-British unionist opinion.

After a 10-minute meeting with the republican leader, Mr Blair said he treated Mr Adams and members of Sinn Féin "in the same way I treat any human being". He added: "I think that what is important in Northern Ireland is that we do actually treat each other as human beings."

Mr Blair told Mr Adams: "It is very rare for humanity to make sense of history, but that is exactly what we've got to do."

He said if the opportunity was missed, "we may not see it again in my lifetime".

Mr Blair said there was "a great degree of common ground" between the parties.

The spirit of reconciliation may have been too much for some of those in the shopping centre, but aides said the prime minister was "hugely encouraged" by the determination of all the parties to find a solution.

The prime minister's office said Mr Blair was unfazed by the protest.

But officials were clearly anxious to limit the inevitable symbolism attached to the meeting, which took place out of sight in the Castle Buildings talks venue.

The day's events started in Londonderry, where Mr Blair met John Hume, leader of the constitutional nationalist SDLP and local MP. The Rev Ian Paisley, leader of the hardline Democratic Unionists, who are boycotting the talks, said the meeting was "insulting to the bereaved ones, the orphans and the widows".

But David Trimble, the moderate Ulster Unionist leader, felt relaxed enough to joke with the prime minister when he met him earlier in the day in his constituency, commenting that "it's safe to shake my hand".

Mr Adams seemed happier to highlight the symbolism of the event and said: "I think we are dealing with a man who certainly recognises this as a historic opportunity."

Prime minister wise to the Irish challenge

When Bill Clinton arranged to bump into Gerry Adams outside a café on Belfast's Falls Road two years ago, he thought it would be outside the public gaze. Mr Adams, as adept as anyone in politics at the picture opportunity and the sound bite, made sure it was not. That handshake was photographed, to the chagrin of the White House, by a senior Sinn Féin official. News organisations had it within an hour.

Yesterday, Tony Blair was wise to the challenge. His media-sensitive aides ensured the first meeting in 70 years between a British prime minister and the leader of Irish republicans was not recorded on camera. Their 10-minute get-together may go down as one of the defining moments in the history of the island of Ireland, a history in which symbolism has so often counted for more than substance.

For the Labour government's approach to Northern Ireland, it marks the latest gamble in a process it hopes is moving towards a rapid conclusion. Mr Blair has set a deadline of May 1998 for the multi-party negotiations to agree a new constitutional settlement. This would then be put to separate referendums of the people of Northern Ireland and of the republic, before being ratified by the British parliament.

PA

Tony Blair (right) with acting chief constable Freddie Hall at police/army base in the region

Mr Blair has shown in his three years in charge of the Labour party that he only picks fights if he knows he can win them or deadlines if he knows he can meet them. On one level, his confidence is justified. Since the general election, Mr Blair has quietly side-stepped some of the obstacles presented by pro-British unionists.

Mr Blair's flexibility on the vexed issue of paramilitary weapons paved the way for a second ceasefire declaration by the IRA in July. That led to a formal invitation to Sinn Féin, the IRA's political wing, to join the other parties at the talks.

Unionists have fulminated. The two smaller parties, the Rev Ian Paisley's Democratic Unionists and Robert McCartney's UK Unionists, have walked out. Mr Blair would rather they were there, but does not need them. The rules for the talks require "sufficient consensus".

For all the publicity surrounding Mr Adams, success hinges at least as much on David Trimble, leader of the Ulster Unionists – the biggest unionist party. Mr Blair spent much of the summer trying to keep Mr Trimble sweet. His promises that the people of the region – with its in-built although diminishing Protestant majority – would have the final say, convinced Mr Trimble that he should meet Mr Adams. But leading unionists, marshalled by Willie Ross, MP for Londonderry East and head of the party's executive, are plotting against him.

The talks themselves are based on the joint framework documents signed nearly three years ago by the UK and Irish governments. These are based on three strands – an internal settlement for Northern Ireland, involvement of Dublin in the affairs of the North and Anglo-Irish inter-governmental co-operation. The first strand is difficult for republicans as it enshrines partition; the second is difficult for unionists as it opens the way, in their view, to a united Ireland.

Mr Trimble wants a formula for Northern Ireland similar to the devolution recently approved by Scotland's voters – self-government within the UK. Yet, mindful of opponents within his camp, Mr Trimble would be prepared to scupper the process if he feels he could not sell it to his voters.

An important test of Sinn Féin's intentions will come with an expected meeting of the IRA's army council next month. Many in London's corridors of power believe attempts to distinguish between hawks and doves in the closely-knit republican leadership tends to be wishful thinking. A return to IRA violence is always around the corner. A walkout by Mr Trimble can never be ruled out. Then Mr Blair's options would be either to try with the Irish government to impose a settlement, or to abandon a process that has defied all his predecessors.

John Kampfner

Operator found for air show site

By Michael Skapinker, Aerospace Correspondent

The future of Farnborough aerodrome in southern England and its biennial international air show were assured yesterday when the Ministry of Defence selected Luxembourg-based TAG Group to operate the site.

TAG, whose interests include property development, motor racing and watchmaking, said it wanted to turn the aerodrome into the UK's first dedicated airport for business jets.

Martin Knight, the group's spokesman, said it would also ensure Farnborough continued to host the air show. The Farnborough event vies with Paris for the title of the world's leading air event. Both exhibitions have come under increasing pressure from new shows, particularly in Asia.

The former Conservative government said last year it wanted to see the Farnborough show continue. But yesterday's announcement marks the end of a period of uncertainty for the UK aerospace industry.

David Marshall, director general of the Society of British Aerospace Companies, said: "We are delighted that the show's future has been confirmed. The air show is a high profile showcase for the global aerospace industry and provides the perfect opportunity for the UK industry to demonstrate its world-class capabilities."

Mr Knight said TAG wanted to build on the small number of business flights that already use the airport. The group will need the approval of the Civil Aviation Authority and the local municipal authority to proceed with its plans.

Mr Knight said the group, which will have a long lease on the site, would work to assure the local community that the environment would be respected.

The MoD has been looking for a company to run Farnborough since 1995. The ministry said the site was surplus to its requirements.

The UK's first powered flight took place at Farnborough in 1908. The first British airship was built there, and Spitfire and Hurricane designs were tested in its wind tunnels.

Ministers to press Germany on coal

By Simon Holberton

The government will press Germany to open its market to imports of British coal but will not intervene in negotiations between the UK coal industry and electricity generators.

Its position emerged yesterday at a meeting between the confederation of UK coal producers and government officials.

However, the long-term outlook for the industry remains bleak. There is little sign the government will change its environmental objectives, including a call for large cuts in carbon and sulphur emissions, or that it will halt the growth in gas-fired electricity generation.

Officials said the government would not intervene in the industry's present round of contract talks with power generators. "We don't want to get drawn into that," said one. RJB Mining, the successor in England to British Coal, has been in negotiations with National Power, PowerGen and Eastern Generation since the summer, but the talks are at present stalled.

RJB will supply about 30m tonnes of coal to the generators this year under contracts signed five years ago, which end next March. However, apart from a two-year, 6m tonne contract with National Power, RJB has not concluded any big contracts that take it beyond next April.

National Power and PowerGen have amassed large coal stocks and do not feel under pressure to conclude contracts. Eastern, which has fewer stocks, is understood to be under greater pressure.

However, officials said the government would press Germany to open its market to imports of coal. Germany is vulnerable to European competition law on state aid to its coal industry.

The government would also press France on the use of the electricity interconnector between the UK and mainland Europe. Most of the electrical flow at present is from France to England.

The government wants UK power providers to be able to use the interconnector to sell electricity on the mainland when the European Union electricity market is opened to consumer choice in 1999.

London and Scotland are experiencing above average rates but Wales is falling behind

Regions record uneven growth

By Richard Adams, Economics staff

London and Scotland are experiencing above-average growth compared with the rest of the UK, while Wales is slipping further behind, according to a report published today.

The survey of regional activity, prepared by Business Strategies, says the UK's economic recovery is unevenly spread between industries and regions.

The report forecasts growth of 5 per cent of GDP in the greater London region, and 4.4 per cent in Scotland. The UK as a whole will grow by 3.4 per cent this year – compared with 2.5 per cent in 1996 and 2.8 per cent in 1995.

But the north of England and Wales will experience a substantially lower rate of growth, the report's authors claim.

Neil Blake, research director of Business Strategies, said: "Manufacturing-intensive regions, like the West Midlands, Yorkshire and Humberside, the north and the north-west, are all suffering from the strength of sterling. In most cases, the situation is likely to get worse as the effect of a strong pound continues to feed through."

The service sector is less affected by the strength of sterling, and the consultancy expects it to expand by 6.4 per cent in 1997. Manufacturing is only expected to grow by 1.7 per cent.

As a result the regions with a greater concentration of service industries are performing much better. The London area employs 3m people in services and only 270,000 in manufacturing industries – nearly half the number employed in the sector 10 years ago.

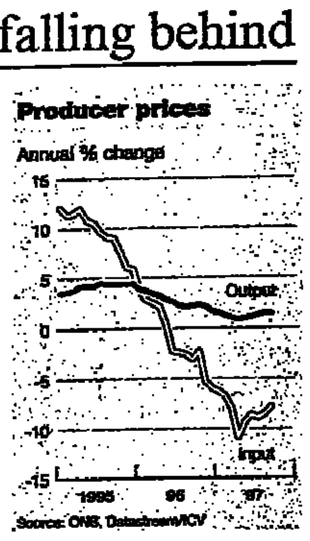
Much of the growth in London has come from the financial and business services sector, which is forecast to grow at double-digit rates by the end of this year. The report predicts that 1.1m people will be employed in financial and related services in the London area by 2000.

● Sterling's role in holding down the prices of imported raw materials is beginning to weaken, according to the latest figures for manufacturing input prices.

During September the monthly rise in the seasonally adjusted price of materials and fuel purchased by manufacturers was 0.5 per cent – the highest monthly increase since April 1996. The monthly rise in August was 0.2 per cent, after being revised down by the Office for National Statistics.

The ONS said the monthly increase largely reflected rises in the price of crude oil, food and electricity. Imported and home-produced food added 0.4 of a percentage point to the rise in the index of inputs, while fuel and crude oil added 0.6 of a percentage point.

Analysts said the figures showed the impact of the pound's rise had peaked.



Until August last year sterling was trading at about DM2.30. But the pound made a sharp recovery to a peak of DM3.06 in July before recently falling.

Research bodies may have to pay corporation tax

By Clive Cookson, Science Editor

The government is proposing changes to corporation tax that could make more than 50 research organisations pay tax for the first time.

Scientists are lobbying furiously against the proposals, which would hit a wide range of non-profit organisations, ranging from old-established industrial research associations to new bodies, such as the Milk Development Council. "This will severely impact on research organisations' ability to develop technology," said Bevan Braithwaite, chief executive of TWI, the former Welding Institute.

The Association of Independent Research and Technology Organisations has warned John Battle, the science and industry minister, that the proposed changes could wipe £50m a year off UK industrial research spending.

Research organisations have been exempt from corporation tax since 1950, under government policy to encourage science and technology.

Now the Department of Trade and Industry is reviewing the criteria for exemption – and the association says draft proposals tighten up the rules so much that most organisations would have to pay tax on the surpluses that they plough back into research or invest in new facilities.

The DTI said last night that the system of tax exemption needed reviewing after almost 50 years. The Inland Revenue, the tax gathering government department, delegates the issuing of corporation tax exemption certificates to the DTI.

The agricultural lobby yesterday joined industrial researchers in condemning the proposals, after the Milk Development Council – set up in 1995 to channel a levy from dairy farmers into research and development – said its initial corporation tax bill could be as much as £1.5m.

Rosalind Upton, tax partner at accountants Ernst & Young, said that under the old rules an organisation had to spend at least 50 per cent of its income on research to qualify for tax exemption.

Under the proposals, at least 75 per cent of income would have to be spent on research – and 80 per cent of this would have to be in-house rather than contracted out to universities or elsewhere.

UK NEWS DIGEST

Rethink over 'drug tsar' post

The government is thought to have decided to redefine the post of its "drug tsar" in an effort to reconcile conflicting ministerial positions. It is expected to announce today that Keith Hellawell, the chief constable of West Yorkshire, will in effect share the role of UK drugs co-ordinator with Mike Trace, a specialist in the rehabilitation of addicted prisoners.

Although Mr Trace, a director of the Rehabilitation for Addicted Persons Trust, will officially be named Mr Hellawell's deputy, the two appointments are expected to convey a sense of balance in government policy between law enforcement and treatment. The government has set itself against the legalisation of drugs, while favouring court powers to order treatment for drug offences as an alternative to prison. Today's appointments, if confirmed, will also signify that the Foreign Office has won a departmental turf war to maintain its grip on international anti-drugs policy.
Jimmy Burns

■ MINIMUM WAGE

Unions and employers set out opinion

Workers aged between 19 and 24 should not automatically receive a lower minimum wage than older adults, both sides of industry have told the independent Low Pay Commission. In a submission published today, the Confederation of British Industry, the main employers' group, and the Trades Union Congress reject government suggestions that the commission might recommend a lower minimum wage rate or exemptions for workers under 25.

The CBI argues for a "modest minimum wage" if "the risk of serious economic repercussions is to be avoided". It warns the commission that even a modest minimum of £3.00 ($4.86) an hour could lead to job losses if wage differentials were restored. The CBI believes £4.40 an hour, which many unions want, would ensure a cut of 250,000 jobs over two years and have a "serious impact on inflation". The TUC favours a minimum wage above £4 an hour. It argues "workers with the same skills undertaking the same duties should be entitled to the full national minimum regardless of age".
Robert Taylor

■ INTERNET

Workers cut time wasted surfing

The amount of work time wasted by staff surfing the internet to check football scores or buy compact discs has fallen in the last six months, the leading UK internet survey has found. The NOP Internet User Profile found the overall number of internet users in the UK rose 35 per cent in the year to June. About 6m adults connected to the computer network over the period. Home use is growing strongly; almost 1m households now have access to the Net, against 400,000 in June 1996. The previous survey, in December, found 20 per cent of staff using work computers to connect to the internet for their own purposes. The figure is now 13 per cent.

The survey found 40 per cent of companies had a Net monitoring system. For example, UBS, the investment bank, sends staff a monthly summary of their internet use.
James Mackintosh

■ NORTHERN IRELAND

Industry warns over glass subsidy

The government is under pressure to reconsider the approval of a £13m ($21m) subsidy for a glass container factory in Northern Ireland, which industry officials say will cause job losses elsewhere in the UK and Ireland. The privately owned Sean Quinn cement company, which is based in the Republic of Ireland, was given approval for the grant for a planned £40m plant in the north on May 1. The Industrial Development Board, the Northern Ireland investment agency, argues that the project will provide 330 badly needed jobs in a "socially disadvantaged" area on the border with the Irish Republic. But British Glass, the trade federation, says the project will add 200,000 tonnes of capacity to an oversupplied market, creating job losses at other UK plants.
John Murray Brown

■ WELSH ASSEMBLY

Labour seeks to lure top candidates

The Wales Labour party is to appoint a "headhunter" to search for top quality candidates to stand for election to the principality's devolved assembly. The headhunter will be asked to encourage those who might not have considered standing for office, particularly targeting industry, academia, the media and professions.
Juliette Jowit

Ministers set to swap red boxes for computers

By Christopher Price

The red box, one of Whitehall's most venerable institutions and container of the nation's most sensitive documents, could soon be replaced by a laptop computer under plans to increase the amount of government business conducted electronically.

The government will also open a web site next month offering access to a range of government services. Eventually people will be able to make online payments for television licences, passports, and road taxes.

The red box has so far survived the information technology revolution because of security concerns, particularly over computer hacking and theft. However, GCHQ, the government's telecommunications and security centre, says it has solved the latter problem by developing a special card which, when removed, renders a computer unusable by scrambling the hard disk.

Ministers would carry their card at all times. The Cab-E-Net, ministers' own intranet system, has also been improved, making it more secure and easier for ministers to transfer and file confidential papers via computer.

Cab-E-Net, which has been operating for more than a year, is used mainly as a diary notice board by ministers. However, David Clark, public services minister, said yesterday the plans would turn it into a more active service, carrying minister-to-minister e-mail, as well as departmental briefings and the government's line on prominent issues of the day.

The government internet service has been developed in conjunction with Microsoft, EDS, National Westminster Bank and one other financial institution. For the first time, electronic signatures will be used to authorise payments.

The Treasury solicitor has agreed to make the computer transaction – which carries a unique computer code – a legal document, verifiable in a court of law. The first service will be to the self-employed, who will be able to make tax and regulation transactions and set up direct debits.

If the pilot project is a success, other services will follow. "There is no reason why virtually every government transaction could not be done on the internet," said Mr Clark.

Bringing IT to Whitehall and putting government services on the internet are part of prime minister Tony Blair's promise to have 25 per cent of government business conducted electronically by 2002.

TECHNOLOGY

Debilitating Lyme disease is the focus for an array of pharmaceutical treatments, says Victoria Griffith

Time running out for ticks

The moneyed New York City suburb of Westchester County, does not immediately spring to mind as a likely breeding ground for dire bacterial infections.

Yet Westchester residents are increasingly concerned about the ballooning incidence of Lyme disease, a debilitating and sometimes fatal illness identified two decades ago in the small town of Lyme, Connecticut.

According to the US Centers for Disease Control in Atlanta, only 1,000 cases of Lyme disease were reported in the US in 1983. Last year, 16,000 Americans were diagnosed with the illness. Chances of contracting the illness run particularly high in the north-east of the US. In the west, Oregon and California are also seeing a surge. The disease is present too in Europe, although less prevalent.

Lyme disease can cause a wide range of symptoms, including arthritis, memory loss, heart disease and motor problems. In rare cases – and particularly among young children – it proves fatal. The rapid spread of the disease is attributed to renewed growth of forests in the US this century. One hundred years ago, most of the north-east was clear cut. Today, forests cover about 80 per cent of the region.

These newly wooded areas are the perfect habitat for deer, which carry ticks that can pass the bacteria on to humans through biting. Helped by hunting controls, the number of deer in the US has soared from 500,000 in 1900 to 30m today, according to the American Lyme Disease Foundation.

With concern about Lyme disease intensifying, pharmaceutical companies are stepping up product development plans. Several antibiotics are effective in treating the illness, particularly in its early stages, but scientists are increasingly concerned about newly resistant strains.

Fortunately, the arsenal of treatments being substantially reinforced. Glaxo-Wellcome was given approval by the US Food & Drug Administration (FDA) earlier this year to market the antibiotic Ceftin (cefuroxime axetil). Last month, the Pennsylvania-based subsidiary of French group Pasteur Merieux Connaught and SmithKline Beecham announced promising clinical trial results for their Lyme disease vaccines. Both plan to file for FDA approval by the end of the year.

The SmithKline and Connaught vaccines work in a similar fashion. Both are proteins derived from the DNA of the bacteria *Borrelai burgdorferi*, which causes the disease.

The proteins stimulate the body's immune system to produce antibodies that attack the bacteria's outer wall. Because the tick ingests the antibody-laden blood, the bacteria is killed before it enters the patient.

The SmithKline product is laced with an adjuvant, a biological magnet meant to localise the antibodies at the site of infection.

Connaught says its own product is highly potent even without an adjuvant. "We had almost 100 per cent effectiveness in patients under 60 years old," says Leonard Sigal, one of the main scientists involved in the Connaught research. "It's hard to beat that."

Another pharmaceutical group, MedImmune, is developing a vaccine that the company says is effective even after the patient is infected. MedImmune says it has identified a protein – similar to the ones used by SmithKline and Connaught – that allows a greater opportunity to fight the illness.

For residents of high-risk areas, such as Long Island and Westchester, the improvements cannot come fast enough.

Yet no one knows if the vaccines will be widely administered. At least three rounds of shots are needed, an inconvenience that may cripple prevention efforts. "If people need a booster shot every year, clearly the vaccines will be used less," says Allen Steere, in charge of the Lyme diseases clinical trials for SmithKline. Chances are, say researchers, that booster shots will be necessary, perhaps even every year.

"Demand for the vaccine will depend on public awareness and how much it is encouraged by physicians," says David Weld, executive director of the American Lyme Disease Foundation. "Because Lyme disease is fatal only in rare cases, it may be that only those at high risk because of their age and geographical location are treated."

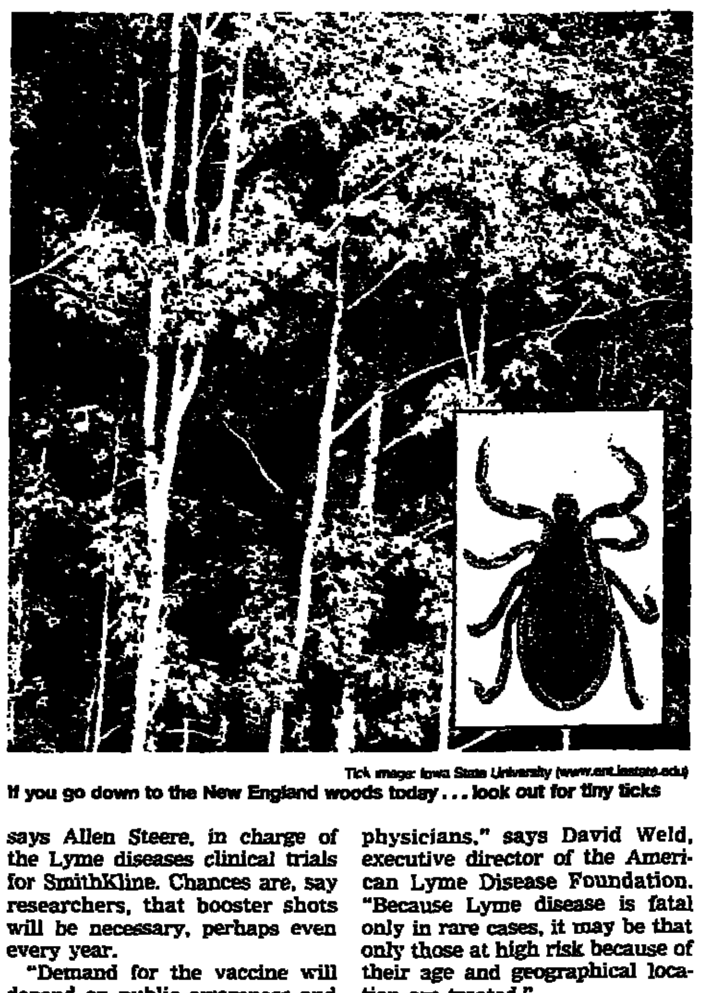
The absence of serious side-effects of the vaccines will probably work in the products' favour. While the SmithKline and Connaught vaccines worked well for younger patients, the immunity boost in those over 65 proved less compelling in clinical trials. Moreover, the vaccines may not work on all strains of the bacteria.

Despite the drawbacks, demand for the vaccines may be strong because of the difficulty in diagnosing Lyme disease once it is contracted. About 80 per cent of victims exhibit a tell-tale bulls-eye rash. For those who do not, the symptoms can easily be confused with influenza or with other common infections. In its later stages, once the disease progresses to affect the heart, joints or brain, the chances of misdiagnosis are even greater.

Diagnosis difficulties are exacerbated by imperfect testing methods. At present, patients are injected with substances that stick to bacteria-fighting antibodies. If the antibodies are present, it is reasoned, the patient has Lyme disease.

The trouble is that the complexes may bind to residual antibodies, left over from a previous infection. That would produce a positive result for a patient formerly, but no longer, infected.

Dr Sigal, working at the Robert Johnson Medical School in New Jersey, is working on a new method to provide improved specificity.



Tick image: Iowa State University (www.ent.iastate.edu)

If you go down to the New England woods today . . . look out for tiny ticks

Healthy cordial or demon drink?

Michael Peel on efforts to get to the heart of the alcohol matter

When the experts cannot agree on the benefits of drinking alcohol, what should the public think? Hardly had Professor Gerry Shaper told a conference audience last week that most people agreed that moderate drinking was beneficial because it reduced the risk of heart disease, than Dr Peter Anderson reminded the conference on alcohol and cardiovascular health of the negative social effects of alcohol.

The fact that two credible figures in the field – Prof Shaper of London's Royal Free Hospital and Dr Anderson of the World Health Organisation's lifestyles and health unit – disagree on such a fundamental point shows how far health workers are from resolving the chronic debate on the merits of drinking.

Every paper on the subject seems to draw a different conclusion. But the conference in London last week, organised by the Novartis Foundation, shed some light on several questions that have perplexed the medical profession and confused the general public.

First, if alcoholic drinks do help prevent heart disease, does the protection come from the ethyl alcohol (ethanol) they contain, or from other ingredients? Second, should doctors recommend moderate drinking as a way to increase the chances of living longer? And what is "moderate drinking" – how much alcohol should be consumed to achieve the maximum benefit?

The effects of alcohol on the heart are often discussed in terms of the "French paradox". This refers to the fact that rates of coronary heart disease are much lower in France than in countries whose inhabitants have similar average cholesterol levels. The differential has been attributed to the much greater consumption of red wine in France.

Prof Arthur Klatsky, of the Kaiser Permanente Medical Center in Oakland, California, points out that a recent study from Germany – which has the highest per capita beer consumption in Europe – shows a similar discrepancy between cholesterol levels and deaths from heart disease.

Prof Klatsky says that although ethanol is the "overwhelmingly important factor" in reducing the risk of disease, his research suggests that wine and beer drinkers enjoy a greater degree of protection than those who mostly drink spirits.

He says this reflects the different lifestyles of those who typically prefer the different types of drink, adding that spirits tend to be more associated with destructive binges.

But he also offers the intriguing possibility that the reduced German mortality is due in part to the non-alcoholic constituents of beer. For instance, many dark German beers contain high concentrations of a class of compound known as polyphenols. These help to prevent the oxidation of a type of molecule known as low density lipoprotein (LDL), which is more likely to cause cardiovascular disease in its oxidised form.

'An individual who is fairly healthy is not at risk of heart disease so there is no benefit'

However, tests on living creatures show that the oxidisability of LDL is enhanced after white wine or beer is administered for several weeks. The benefit of the polyphenols may be outweighed by the pro-oxidising effect of ethanol.

Future research will look at how that balance varies between different types of drink, says Prof Ian Puddey of the Department of Medicine at the Royal Perth Hospital in Western Australia.

For instance, red wine contains about three times the concentration of polyphenols as either white wine or beer. Prof Puddey says: "The big question in this, and where the ambiguity still remains, is: how much of these substances are absorbed from the gut and what is the balance of effects in vivo?"

The tests on LDL support other work which shows that alcohol consumption has a demonstrable short-term effect on cardiovascular health.

Prof Michael Criqui, of the Department of Family and Preventive Medicine at the University of California, says this is one good reason why the medical profession should not recommend moderate drinking as a way to avoid heart disease. "We don't want to start saying to a 20- or 25-year-old: 'It's time to start drinking if you want to protect your heart,' he says.

"The benefit really occurs in older individuals where there is a substantial risk of heart disease. An individual who is fairly healthy is not at risk of heart disease so there is no benefit in drinking alcohol."

There are other reasons to be cautious. Prof Shaper says there is an underlying flaw in comparing drinkers with teetotallers. "In this country non-drinkers are a very peculiar group of people," he says. "This group of people has a heavy burden of disease. In middle age about half of them are ex-drinkers. The remainder are people who have never drunk at any time in their lives. The non-drinkers appear to be a poor control."

Among those who see moderate drinking as beneficial, opinions about optimal intake vary widely. At the conference, most people talked in terms of one US drink a day – about three-quarters of a pint of beer.

Yet one paper presented to the conference, based on a study of 34,000 middle-aged men from eastern France, showed a 20 per cent drop in total mortality for men who drank the equivalent of a bottle of wine a day.

The medical profession is trying to give constructive advice, but the lack of clear and consistent evidence means researchers are viewing the effects of drinking through a glass, darkly.

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The Minister of the State Treasury, with the seat in Warsaw, 36, Krucza st., 00-522 Warszawa, acting on behalf of the State Treasury of the Republic of Poland, in accordance with Art. 33 para. 1 of the Law on Commercialisation and Privatisation of State - Owned Enterprises of August 30, 1996 (Dz.U. No.118 item 561 with further amendments) invites offers from Potential Investors interested in purchasing stakes of shares of at least 10% and not more than 80% of shares in the share capital, of the nominal value 10,00 PLN each, of Tarchomin Pharmaceutical Works "POLFA" Joint - Stock Company seated in Warsaw at 2, Fleminga st., hereinafter referred to as "POLFA" Tarchomin S.A. or "the Company".

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By 9 February 1998, Minister of the State Treasury will inform each of the Potential Investors, who presented an indicative offer, by a registered letter, on his consideration of response to the invitation to negotiations.

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ARTS

'Get back to where you once belonged'

As 'Standing Stone' receives its world premiere, **Andrew Clark** writes a letter to Paul McCartney

Dear Paul,

I want you to know I'm an admirer. I was there from the beginning, aping the sounds of "From me to you" as a 10-year-old, twisting and shouting, saving up pocket money to buy your early albums, and even – this is confession time – becoming an early member of the Beatles fan club. For me and many of my generation, nothing you've done since the day you stopped talking to John Lennon has ever sounded quite the same. No, I didn't *expect* you to stay the same, and yes, I admire your questing spirit, your determination to set new creative goals instead of wallowing in familiar triumphs. But did you have to produce something quite as awful as *Standing Stone?*

Classical music can certainly learn something from your gift for simple, catchy tunes: crossover works both ways. And when *Standing Stone* receives its first public performance at the Royal Albert Hall tonight, you will bask in the ovations. The recording, which EMI thoughtfully issued in advance of the concert, will doubtless become an essential item in the McCartney discography, charting one further step in your artistic development.

Please be reassured that there are at least some discerning people who see through the record company blurb: we know *Standing Stone* was not your fault. Despite the loudness with which the sleeve-note protests, it's obvious you had very little to do with it. You made up a few tunes, just like the old days. Your record company, sensing a gold-mine, blew it up into a 75-minute wordless "symphonic poem" for orchestra and chorus. They provided a jazz musician to notate it (Steve Lodder), a "serious" composer to structure it (David Matthews), a saxophonist to do his bit (John Harle), an orchestrator to orchestrate it (Richard Rodney Bennett) and a recording producer to balance it (John Fraser).

You must be feeling miserable – to think that after four years of *your* hard work, this committee comes along and dresses up your music to the point where you are unrecognisable. You've ended up *paying* them to produce an expensive folly. I think you ought to claim damages. Don't tell me you seriously *wanted* to include echoes of "Appalachian Spring" and the "Levée du jour" from *Daphnis!* And when the sleeve-note refers to a "primeval soup" – is it not blowing the gaffe on *Standing Stone's* mix of Holst, Butterworth, Moody Blues, "Tubular Bells" and New Age mood music? Did you *want* to turn out something so rambling and monotonous? I know – they told you "Yesterday" was yesterday, and at 55, you had to produce something "weighty".

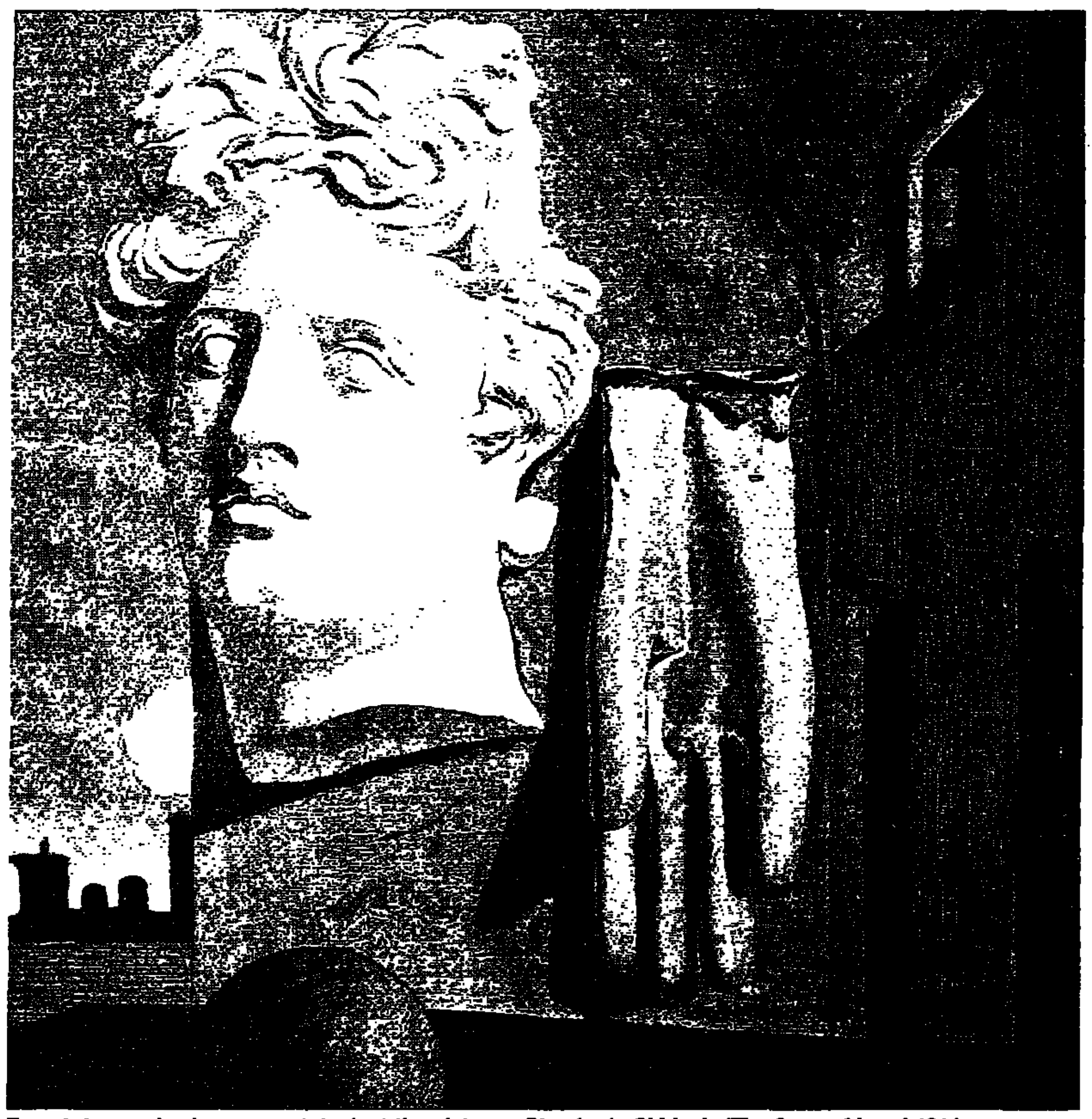
I think you should have stuck to your day-job, Paul. "Lost at Sea", part of the second movement, would have been a better title for the whole piece, because you're clearly out of your depth with this classical stuff. All those tempo indications – *con moto scherzando, andante intimo:* don't tell me they were your idea! That was your committee, telling you what they *could* have done, if they had had the remotest care for your reputation. *You* surely can't be blamed for so much numbing moderato and slick orchestration, familiar from a thousand film scores. All it has done is reduce your touching little "programme" – about First Person Singular discovering primitive tribes, ancient potions, milk maids, rustic jigs and, ooh, aah, LOVE – to embarrassing bathos.

But we must allow you – whoops, *them* – this pretentious act of self-indulgence. In mitigation, they *did* have the decency to let snatches of your personality shine through. I'm referring, of course, to the catchy rhythms of "Messenger" and the affirmative tune in the final "Celebration", a statement of which Vaughan Williams would have been proud. If only you had been in control, or at least known the elements of notation and orchestration, these would have been dominant ideas. Instead, the piece goes nowhere. I felt I could have left the room and come back 15 minutes later without having missed anything significant. In the words of one of your songs, Paul, it's time for you to "get back to where you once belonged". And it's time for me to come clean: *Standing Stone* is a faceless monument, because it's the work of ghost writers.

Your devoted fan – honest!

Andrew Clark

Paul McCartney: Standing Stone. London Symphony Orchestra and Chorus conducted by Lawrence Foster (EMI 5 56484 2).



Forget the academic argument, look at the pictures: Giorgio de Chirico's 'The Song of Love' 1914

Staple diet of the avant-garde

William Packer admires the still lifes at the Hayward

Objects of Desire, an anthology of 20th century still-life from Picasso to Jeff Koons, has come to the Hayward Gallery from the Museum of Modern Art in New York. It is, in great part, a wonderful treat. Nearly a third of the works comes from the Museum of Modern Art itself, but the world has been trawled. Masterpiece follows unfamiliar masterpiece, each the more potent and intriguing for the fresh company it keeps.

Cézanne's great table-top, the "Ginger Jar with Aubergines" of the early 1890s, with its shifting, disconcerting space, stands as prologue, but the true show begins at 1908 with a post-primitive, post "Demoiselles d'Avignon" vase of flowers by Picasso, and the Fauvism of Jawlensky and Matisse. But Picasso's tiny, exquisite pears and apples of that same year betray incipient Cubism, and we move with a fine concision to Cubism full-blown and all its variants and developments, to Braque, Léger and Gris, to Boccioni's bronze "Bottle in Space", and Mondrian's "Ginger Jar" of 1912.

All this in the first room, and already we have our money's worth. Next to those Picasso fruit hangs an equally tiny, unexpectedly Cézannesque bowl of green apples by the young Paul Klee, and next again a table-top of fruit by Raoul Dufy, and a delicious fluted bowl of yellow pears and bananas by Derain, all lovely things. The point is well made that still-life was ever the staple of the avant-garde, the Cubists' sole preoccupation.

This level of pleasure is kept up through the next few rooms, with more Cubism, then Dada, Surrealism and the Italian metaphysicals. Even Duchamp, with his ready-made "Bicycle Wheel" hardly spoils the party. Indeed the sculpture neatly demonstrates how early the actual object was elevated to the status of art – from the Boccioni bottle of 1912 and Picasso's early assemblages, to Man Ray's "Gift" of a spiked flat-iron of 1921, Dali's "Lobster Telephone", Meret Oppenheim's fur-covered cup and saucer in the 1930s, and Cornell's trophy-boxes.

Even so, good old paint on canvas or whatever is what takes the breath away – the magisterial Matisse, blue, black and white, of goldfish in a bowl; de Chirico's classical head and pink rubber glove; a group of Morandi, Carrà, Picasso and le Corbusier, all from 1919, of jugs and bottles, tubes and blocks; and from the 1930s, the two young Spaniards, Miró and Dali, pots and pans again and a basket of bread respectively, of a nervous, febrile intensity worthy of Zurbarán.

So far, so good. But then this is also an academic study of the modern still-life – which is where the nonsense starts. It is set out chronologically under nine tendentious headings of which "The World as Perceptual Field", "Real Fictions (Dada)", "The Mechanisms of Consumer Culture" and "Post-modern Simulacra" are fair examples. And with them come the truisms and swingeing generalisations.

The exhibition's curator, Margit Rowell of New York, tells us that "a still-life often does not exist until the artist decides to constitute the model." So the artist has to put a few things together on the table, and shift them about a bit? Really? "The process of selection", she goes on, "is traditionally influenced by the role certain objects play in the context of a given society. Although the objects are relatively generic, as subjects they are not timeless: their choice is dictated by their place... in a historical and cultural fabric."

"Traditionally influenced"? A tradition bespeaks a passing-on of principle and practice, things understood and acknowledged. So are we to understand that artists traditionally discuss together what role their relatively generic bottle, or apple or piece of cheese now plays in the cultural fabric of their given society?

But it is traditionally easy, and as unfair, to mock an earnest American art historian. Where we agree is that the artist makes his choice of object and, in so doing, makes that object his own. His purpose may be symbolic, narrative, experimental, analytical or descriptive, and we take the result for what it is. As Rowell demonstrates, those results can be as beautiful and commanding as anything in art.

This show was not at first intended for a British audience, and the only British artists represented are Richard Hamilton and Tony Cragg. The absence of any other British artists, from Paul Nash and Bomberg to Sutherland, Freud, Paolozzi, Hockney, Hirst and Whiteread, is inexplicable, and the show is the poorer for it. And to have Johns, Warhol and Lichtenstein, and not Patrick Caulfield, as fine a painter of still-life as any in the past 30 years, is inexcusable. As for Morandi, to have only one, and that an atypical early piece, is merely perverse.

Objects of Desire – **the modern still life: The Hayward Gallery, South Bank Centre SE1, until January 4; sponsored by BMW in association with The Times.**

Ballet/Clement Crisp

Obsessive passion without prurience

The evening begins with a bold, thrilling image. A king has died. Through mist and shafts of light, his cortège moves beneath massive architecture. As it disappears into the darkness, a young man is seen, holding a letter in triumph, leaping with joy. He is Piers Gaveston, recalled from exile by his lover, the newly crowned Edward II. So starts David Bintley's *Edward II*, given by his Birmingham Royal Ballet for the first time on Thursday night. (Bintley originally staged it in Stuttgart two years ago.)

Based upon Marlowe's play, in two acts, with a new score from John McCabe, this is historical drama seen by sheets of erotic lightning amid the darkness of political intrigue. It is lurid, and rather odd as ballet. It is, inevitably, a homosexual tragedy, and Bintley's best, most compelling writing is in the love scenes between Edward and Gaveston, and these give the first act its purpose. An obsessive passion is shown without prurience and with entire conviction by Wolfgang Stollwitzer – who created the role of Edward in Stuttgart – and Andrew Murphy, who manages both the amorous and the petulant (always a danger in the real world with people's boy-friends) with easy skill. Both men dance admirably. Edward's relationship with his Queen, Isabella, riven with anger and physical distaste, does not provide the same dance inspiration. Isabella remains throughout a dull and curiously blank personage (as, sad to say, does Sabrina Lenzi who plays her).

The problem for Bintley has to do with making a struggle for power – the Barons against Edward; Isabella against her husband – choreographically valid. He has an unerring sense of theatre, and in Peter J. Davison's superb sets, which loom menacingly and are lit splendidly by Peter Mumford, the action is seamless. The first act finds its momentum in Edward's passion for Gaveston, and reaches a juicily grand guignol ending as the king holds his dead lover's head, neatly packaged as what I took to be a haggis. Horrid, of course, but gripping, and grippingly done.

But, and it is no small but, there are the rebel barons and Isabella's machinations to contend with. Black-clad, and led by Joseph Cipolla's fierce Warwick, the aristos strut and gesture and swear oaths, and after a few moments it all looks the sheerest rodomontade. So, too, does the second act scene at the French court, inexplicably given in modern and hideous dress. (Are we supposed to see parallels with today? *Périr*, as they *say at court, la pensée*).

Jasper Conran, as costume designer, provides the men with natty pastel suitings, more than reminiscent of those in *La fin du jour*. The plottings and posturings that attend Isabella's quest for revenge lower the emotional temperature. The hounding of Edward (and his new love, Hugh Despenser) seems less than urgent until we reach his death, which is very nasty indeed. Conran's costuming, which veers towards dress-making rather than stage design, here corrupts the drama with sado-masochistic exhibitionism. There is a modish look to gaolers and torturers – all straps and chains and unlikely menace – which makes Edward's horrific end voyeuristic and even lubricious. Bintley shows the death as terrible. Conran's outfits turn it into titillation for viewers having a fancy for this sort of romp.

John McCabe's score sounds loud and suitably *threatening*, theatrically apt and convincing under Barry Wordsworth's baton. Peter J. Davison's design sustains the drama at every moment. The ballet is, I feel after a first viewing, too long: each act lasts nearly an hour. It aims high. Bintley's craft is, as ever, imaginatively sure and daring. Yet when the dramatic focus shifts from Edward, the urgency is gone. Here is a ballet which promises to be as wrenching as *Mayerling*, then loosens its grip on our feelings.

At the Birmingham Hippodrome.

Alastair Muir

Sabrina Lenzi and Wolfgang Stollwitzer in 'Edward II'

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Concertgebouw
Tel: 31-20-675 4411
National Symphony Orchestra: on tour in Europe, conducted by Leonard Slatkin. Programme of works by Beethoven, Foote, Ives and Gershwin: Oct 14

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Lander-Graham-Marin: National Ballet programme of four 20th-century works – Etudes, Lamentation, Embattled Garden and Groosland; Oct 14, 15

EXHIBITIONS
Van Gogh Museum
Tel: 31-20-570 5200
Auguste Préault (1809-1879): Romanticism in Bronze. 75 sculptures and medallions by the nonconformist whose works, during his lifetime, were regularly rejected by the Salon jury. This display includes important works produced during the 1830s and 1840s: Slaughter, Ophelia and Silence; from Oct 17

OPERA
Het Muziektheater
Tel: 31-20-551 8911
La Traviata: by Verdi. Netherlands Opera revival of a staging by Alfred Kirchner, conducted by Ralf Weikert; Oct 16

BALTIMORE

EXHIBITIONS
Baltimore Museum of Art
Tel: 1-410-396 6310
A Grand Design: The Art of the Victoria and Albert Museum. First stop of a five-city North American tour. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood; to Jan 18

BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Andreas Delfs in works by Britten, Handel and Shostakovich; Oct 16
● Deutsche Oper Orchestra: conducted by Christian Thielemann in works by Beethoven and Schoenberg. With violin soloist Elisabeth Glass; Oct 14
● Philharmonie der Nationen: conducted by Justus Frantz in works by Brahms; Oct 15

BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
Otello: by Verdi. New production conducted by Antonio Pappano *in a staging by Willy Decker.* Cast includes Susan Chilcott as Desdemona; Oct 15.

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
● Nabucco: by Verdi. New production staged by Elijah Moshinsky and conducted by Bruno Bartoletti. Cast includes Maria Guleghina and Samuel Ramey; Oct 16
● Peter Grimes: by Britten. Conducted by Mark Elder, making his Lyric Opera debut, in a staging by John Copley. Ben Heppner sings the title role; Oct 14, 17

LONDON

CONCERTS
Barbican Centre
Tel: 44-171-638 8891
London Symphony Orchestra Brass: conducted by Eric Crees in works by Bernstein, Brahms and Bach; Oct 16

DANCE
Labatt's Apollo, Hammersmith
Tel: 44-171-416 6082
The Royal Ballet: The Sleeping *Beauty. Production by Anthony* Dowell, with designs by Maria Bjornson; Oct 14, 15, 16, 17

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
Objects of Desire: The Modern Still Life. Exploring 20th century developments of a 400-year-old genre, *this show ranges from* Picasso and Matisse to Oldenburg and Warhol: previously seen in New York; to Jan 4

THEATRE
Barbican Theatre
Tel: 44-171-638 8891
The Ninagawa Company: in Shintoku-Maru, by Shuji Terayama, adapted by Rio *Kishida*; Oct 15, 16, 17

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in Mahler's Symphony No. 3; Oct 16, 17

OPERA
L. A. Opera, Dorothy Chandler Pavilion Tel: 1-213-972 8001
Florencia en el Amazonas: by Daniel Catán. Conducted by Roderick Brydon in a staging by Francesca Zambello. Cast includes Sheri Greenawald; Oct 15

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Die Zauberflöte: by Mozart. Conducted by Hans Drewanz in a staging by August Everding, with designs by Jürgen Rose; Oct 17
● The Love for Three Oranges: by Prokofiev. Conducted by Roberto Abbado, in a staging by *Juri Ljubimow, with designs by* David Borowskij; Oct 16

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
● New York Philharmonic: conducted by Kurt Masur in works by Mozart and Franck. With pianist Helen Huang and New York Choral Artists directed by Joseph Flummerfelt; Avery Fisher Hall; Oct 14
● New York Philharmonic: conducted by Neeme Järvi in works by Thomson, Tchaikovsky and Mendelssohn. With tenor Richard Clement and violin soloist Tasmin Little; Avery Fisher Hall; Oct 17

EXHIBITIONS
Brooklyn Museum of Art
Tel: 1-718-638 5000
Monet and the Mediterranean: "It is so beautiful here, so bright, so luminous! One swims in blue air; it is frightening!" wrote Monet from Cap d'Antibes in 1888. Bringing together more than 70 works, this exhibition presents the fruits of several journeys made by the painter: to the Italian and French Rivieras in the 1880s, to Venice in 1908; to Jan 4

Museum of Modern Art
Tel: 1-212-708 9480
Egon Schiele (1890-1918): The Leopold Collection, Vienna. Around 150 works by the Austrian Expressionist, dating from 1905 through 1918; to Jan 4

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
● Manon: by Massenet. Revival of a staging by Jean-Pierre Ponnelle; Oct 15
● Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Oct 14

New York State Theater
Tel: 1-212-870 5570
● La Traviata: by Verdi. Revival of Renatta Scotto's New York City Opera production, conducted by Emmanuel Joel; Oct 14

PARIS

CONCERTS
Opéra National de Paris, Opéra Bastille Tel: 33-1-4473 1300
Orchestre de l'Opéra National de Paris: Georges Prêtre conducts works by Wagner and Mahler; Oct 16

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
● St. Petersburg Philharmonic Orchestra: conducted by Youri Temirkanov in works by Shostakovich. With violin soloist Viktor Tretyakov; Oct 14
● St. Petersburg Philharmonic Orchestra: conducted by Youri Temirkanov in Shostakovich's Symphony No. 7; Oct 15

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: in Swan Lake; Oct 15, 16, 17

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-4473 1300
Aufstieg und Fall der Stadt Mahagonny: by Kurt Weill. Conducted by Jeffrey Tate in a production directed by Graham Vick; Oct 15

Opéra National de Paris, Palais Garnier Tel: 33-1-4343 9696
Pelléas et Mélisande: by Debussy. Conducted by James Conlon in a staging by Robert Wilson. Cast includes Dawn Upshaw; Oct 14

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Martin Wolf

The great disruption

More divorce, more unmarried mothers – the breakdown of the family is beyond the control of governments. Damage limitation is the best option

Even for conservative thinkers, the family is a divisive issue. Some think free choices cannot be a concern of the state. Others bewail the lost stability of a generation ago. The worry is understandable. But the state can do little, except avoid making bad worse.

In the UK, the divorce rate tripled between 1950 and 1993. Over the same period, the proportion of babies born to unmarried mothers rose from 5 to 30 per cent. By 1994-95, 20 per cent of British children were with a lone mother – up from just 6 per cent in 1972. Confronted with so profound a revolution, one British politician, the former Tory cabinet minister Michael Portillo, argued last week for tolerance of lone parents and never-married couples.

Within a generation, the idea that marriage is a binding life-long commitment and the only acceptable way to bring up children has become as dead as the dodo. Intact nuclear families exist. But their survival reflects not legal constraints and social norms, but an act of will by both partners.

Never backward in tackling a big theme, Francis Fukuyama – notorious for describing the collapse of the Soviet Union as marking "the end of history" – calls family breakdown "the great disruption".*

Certainly, the transformation in the family – the rise in divorce and the increasing proportion of lone-parent households and of births out of wedlock – is visible throughout the west.

The transformation is most advanced in Scandinavian and Anglo-Saxon countries. Other European countries lag behind, but trends are in the same direction. Of advanced countries, only Japan stands out. There, divorce rates and rates of birth outside wedlock are both low and stable.

The question is why this should have happened so quickly and in so many countries. The answers, Mr Fukuyama suggests, lie in the pill and in jobs for women. Reproductive freedom and economic independence were the midwives of revolution.

As late as the 1950s, more than 60 per cent of US brides were pregnant at the altar. The idea that a man had to marry a woman he had made pregnant was universally held. The advent of the pill and abortion means that responsibility for the consequences of sex increasingly fall on women.

Still more important is the possibility for women to earn money. In the US, the ratio of median female to median male incomes has risen from about 30 per cent in the mid-1960s to close to 55 per cent in 1995. The ratio is higher still among African Americans, at close to 70 per cent. Between 1973 and 1996, the proportion of US women between the ages of 15 and 64 in employment rose from 48 per cent to 68 per cent. Over the same period, the proportion of men in employment fell from 83 per cent to 77 per cent in 1983, before rising again to 82 per cent in 1996, while their earnings became considerably more unequal.

In the UK, the proportion of women in employment has risen from 53 per cent in 1973 to 64 per cent in 1996. But for men the ratio has fallen, from 90 per cent in 1973 to 78 per cent in 1996. As in the US, male earnings have become more unequal.

The chart shows there was a close – if imperfect – relationship, across countries, between increases in women in the labour force and changes in divorce rates. The same, notes Mr Fukuyama, is true for women in work and births out of wedlock.

Marriage is an economic institution. The changes described by Mr Fukuyama have inevitably transformed the contract. A woman can limit the number of her children, thereby controlling the demands of child-rearing. She can secure resources from work. Both changes increase her choices and her bargaining power. The collapse in the earning opportunities of unskilled men further strengthens the power of their potential partners.

With women more independent, men have changed too. Serial polygamy has become a socially approved option. At the bottom of the income distribution this means casual relationships. At the top, it means that "American corporate executives have their wives and children serially rather than simultaneously, as in the case of Ottoman Pashas or Chinese Mandarins."

Mr Fukuyama downplays two other explanations for the transformation of the family. One is an autonomous change in social norms. He sticks – persuasively – to the Marxist idea that such a massive shift is more likely to be driven by technological and economic forces than just come from nowhere. The second is the rise of the welfare state. In favour of his argument in downplaying this – often seen as a central explanation for the decline of the family – one strong piece of evidence can be adduced: the transformation of the family is most advanced in the Anglo-Saxon and Scandinavian worlds, polar opposites in terms of welfare.

Neither social norms nor the welfare state is irrelevant. Again, one US analyst, William Galston, suggests that perhaps 15 per cent of family breakdown can be attributed to welfare programmes. The welfare state must be particularly important in explaining the increase in never-married lone mothers. It seems implausible that such a choice could work at all without welfare benefits.

The fundamental question is whether this transformation in the family is a matter for concern. There are three good reasons for believing it is.

The first is that the resources available to a two-parent family are normally considerably greater than those available to lone parents, except when the man does not earn or the welfare state intervenes. The second is that there is much evidence of the damage done to children by family breakdown. The third is that adult men play a particularly important role in socialising and controlling adolescent males, the most disruptive and crime-prone group in all societies. Indeed, the link between race and crime in the US disappears once family structure – in particular, the absence of adult men in most Afro-American families – is accounted for.

The free choices of men and women have what economists call "negative externalities" on society, chiefly via their impact on children. Mr Fukuyama complains that the ability of society to co-operate harmoniously is impaired. While this is generally unpersuasive, it may well be true at the bottom of society, where crime is a significant social problem.

Yet within modern western societies committed to equality none of the fundamental changes can be rolled back. Mr Portillo was sensible to recognise this. Governments can merely avoid making things worse.

They can try to make fathers bear financial responsibility for their children. They can avoid welfare policies that favour lone parents over poor couples. They can avoid creating incentives for mothers to sever relations with fathers. They can increase resources available to all families with children.

Marxists used to declare that the point was not to understand the world, but to change it. But to understand the forces driving the changes in the family is to realise they cannot be changed. What is needed, instead, is to minimise damage done along the way.

* *Francis Fukuyama, The End of Order (London: The Social Market Foundation, September 1997).*

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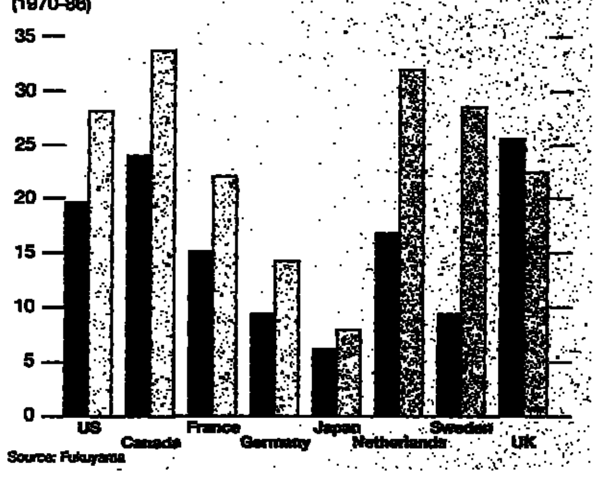
More jobs for women mean more divorce



Source: Fukuyama

LETTERS TO THE EDITOR

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Fed's policy of convincing bluff rather than 'tolerant vigilance'

From Mr Walter Stanners.

Sir, I was surprised that your leading article "The choice for the Fed" (September 30) on Alan Greenspan's performance ignored its theatrical aspect. Since the beginning of 1995, the Fed rate has been changed five times. On the first occasion, at the beginning of 1995, a 0.5 percentage point rise was announced after the three-month market rate had already risen. Far from responding to this signal, the three-month rate immediately began a year-long descent, with three successive quarter-point cuts in the Fed rate straggling quite noticeably after it.

The only apparent attempt by the Fed to lead was the fifth and last move in April, taken after a year of stable short-term rates. This quarter-point rise has been totally ignored by the market. While the Fed rate went up from 5.25 to 5.5, the three-month rate has fallen from 5.3 to 5. In the light of this, it would be most surprising if a further rate rise were announced soon. The Fed's policy, I suggest, is suggestive less of "tolerant vigilance" as of seemingly convincing bluff.

Similar remarks apply to the Bundesbank. The German three-month rate generally follows the Repo rate quite closely (or vice versa). Since the change downwards last August, however, the three-month rate has been persistently above the Repo rate and since July has steadily gone up. The new revision of the Repo rate is merely catching up with this.

The situation in Britain is identical. The base rate has has been revised upwards four times since November, systematically lagging the three-month market rate for Treasury Bills. The current position indicates the possibility of a rise in base rates, but it is perhaps more likely that the market will signal to the Bank that it is time for convergence.

Walter Stanners,
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Sad to see the Queen's English fall by the wayside

From Mr Steve McGiffen.

Sir, Perhaps it was the fact that the Labour party has become such an embarrassing clone of Clinton's Democrats that caused it; or perhaps it was an unconscious word association based on the precipitous national decline that such a move would bring about.

Either way, I was saddened to read in Robert Peston's article "The long and different road" (October 4-5) on New Labour that Tony Blair's announcement that sterling will soon join Emu will take place "later this fall". Later this what? Britain may be about to surrender what's left of her democracy and independence, but to see our version of the English language entering the autumn of its days is sad indeed.

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Shop when you get there

From Mr Peter Verstage.

Sir, If it is to be continued, why not allow duty-free shopping at the airport of arrival instead of at the airport of departure? That way, airlines would save the extra fuel consumed by needlessly transporting thousands of tons of goods around the world, and air travel would be made safer on account of fewer bottles falling out of the overhead lockers.

Peter Verstage,
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Shareholder value and wisdom of buy-backs

From Mr Ian Kennedy.

Sir, Lex is quite correct ("Sale and buy back", October 1) to counsel against share buy-backs in every circumstance, as investing in good growth opportunities will usually create most shareholder value.

However, this does not mean that, in low growth situations such as the ones mentioned in the article, buy-backs necessarily represent the best allocation of spare cash. The wisdom of this decision will depend on whether the shares purchased represent a good investment on behalf of the remaining shareholders: that is, the price paid is below the intrinsic value of the business.

If this is not the case, the directors will be destroying shareholder value and would be better advised to hand the cash back to all shareholders in some other way.

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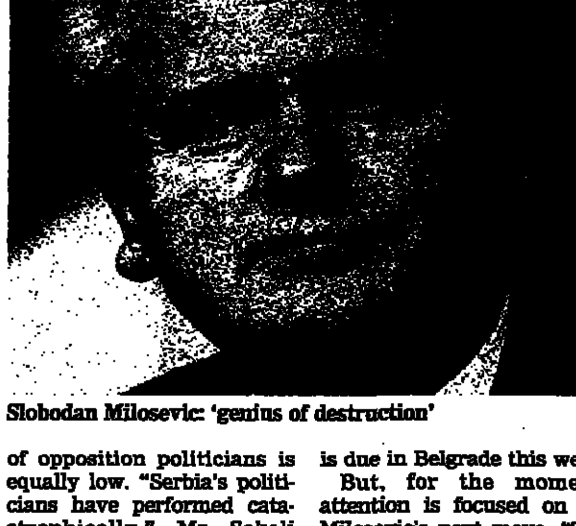
Down, but still not out

Milosevic hopes chaos in Serbia will boost his power, says Guy Dinmore

Eight years ago, borne by a rising tide of nationalism that was to destroy the old Yugoslavia, Slobodan Milosevic descended by helicopter into a field in southern Serbia to whip up a crowd of 1m fervent Serb supporters.

Now, after the same people delivered a stinging rebuff to his ruling Socialists at the ballot box, the president of the new – diminished – Yugoslavia is holed up in Belgrade's White Palace where the dictator Tito once held sway.

Mr Milosevic's last public statement was an appeal to voters to back his man for Serbia's presidency on October 5. They didn't. No longer loyal to their old ruler, 1.7m people – about a quarter of the electorate – did, however, remain faithful to their nationalist views: they gave a narrow majority to Serbia's ultra-nationalist Radical party leader Vojislav Seselj, a man considered by the west to be even more unwholesome than Mr Milosevic himself.



Slobodan Milosevic: 'genius of destruction'

Mr Seselj, once a Milosevic protégé who led paramilitary units during the wars in Croatia and Bosnia, was only denied electoral victory because the turnout fell just short of the required 50 per cent. As a result, Serbia has been plunged into a constitutional crisis and is bereft of a president until fresh elections are held.

But the law gives no timetable for a rerun. Adding to the sense of chaos, no party has a majority in parliament after separate elections last month in which the Radicals more than doubled their number of seats and the ruling Socialist coalition lost 19.

But Mr Milosevic is known as a political survivor. Some of his opponents, who demonstrated for three months through Belgrade's freezing streets last winter, may sense the regime is crumbling. Commentators, however, say it is too early to write his political obituary.

"Milosevic feels like a fish in water in this chaotic situation," says Laslo Sekelj, a sociologist with the Institute of European Studies in Belgrade. "He is a genius of destruction."

There is no doubt that support for Mr Milosevic has fallen sharply over the past five years, but the standing of opposition politicians is equally low. "Serbia's politicians have performed catastrophically," Mr Sekelj says, alluding to the acrimonious collapse of the ironically named Zajedno (Together) coalition.

The appeal of Mr Seselj's simplistic social demagoguery and anti-US nationalism could be temporary. "Voters punished the other opposition parties by voting for Seselj," says Predrag Simic, director of Belgrade's Institute of International Politics and Economics. "It was not a true indication of his support. In a different framework he would not do so well."

Belgrade's ousted mayor and Democratic party leader, Zoran Djindjic, hopes to fill the vacuum in the political centre at the head of a new alliance. Having led a campaign to boycott the latest polls, Mr Djindjic is fishing for a joint candidate to run for Serbian president when that election is eventually repeated.

The name most mentioned is Milan Panic, the Serbian-born head of California-based ICN Pharmaceuticals, who served briefly as Yugoslav prime minister and ran unsuccessfully against Mr Milosevic in 1992. Mr Panic is due in Belgrade this week.

But, for the moment, attention is focused on Mr Milosevic's next move. "The power is where he is," says Mr Sekelj. Mr Milosevic, though in theory merely a state figurehead, controls the army, police, official media, economic monopolies and his own party's considerable infrastructure.

Mr Seselj has proposed a grand coalition, with the Radicals being given the post of prime minister or speaker. Negotiations on forming such a coalition may rest on the outcome of presidential elections elsewhere: in tiny Montenegro.

Montenegro is the only other republic that has stayed with Serbia in the wake of the bloody break-up of the old Yugoslavia. A first round earlier this month was inconclusive and a run-off is to be held on October 19 between the incumbent, Momir Bulatovic, a Milosevic protégé, and Milo Djukanovic, his reformist rival and the current prime minister.

Should Mr Bulatovic remain in office, Mr Milosevic would have an ally in Montenegro. This might enable him to concentrate power in his own hands by using Serbia's political disarray to shift power from Serbia to the federal presidency of the combined Serbia and Montenegro. Mr Milosevic could then allow elections to proceed for Serbia's president and parliament safe in the knowledge that true power lay elsewhere.

Such an unstable and unpredictable situation is deeply worrying for the international community. The west is anxious to preserve a shaky peace in neighbouring Bosnia and fearful of a fresh Balkan war erupting in Serbia's southern province of Kosovo where an ethnic Albanian majority is demanding autonomy or outright independence.

Hopes of stability have not been helped by the upsurge of nationalist sentiment in Serbia which nudged Mr Seselj to within an inch of victory. Belgrade commentators say western governments may be forced to re-examine their policy of maintaining an "outer wall" of sanctions on Yugoslavia, which bars it from access to international institutions and finance.

"The United States is helping Slobodan Milosevic in his politics of destruction," says one commentator who believes the sanctions have helped wipe out Serbia's middle class and boost support for the Radicals of Mr Seselj.

Mr Seselj is frank about his long-term goal of creating a Greater Serbia that would swallow up Montenegro, chunks of Bosnia, Croatia and even Macedonia. A celebratory cake he cut after the recent election was fashioned in the shape of those new borders. Robert Gelbard, the US special envoy to the Balkans, recently denounced Mr Seselj as a "fascist" and said Washington could not work with him.

This has played right into the hands of Mr Milosevic. Diplomats say he is now brandishing the threat of President Seselj in order to persuade the international community to lift sanctions.

The west may find Mr Milosevic distasteful, but most regard the possibility of Serbia under Mr Seselj as a far more frightening prospect. Mr Milosevic may be down. But he certainly isn't out.

FINANCIAL TIMES

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Tuesday October 14 1997

Hot debate on warming

US lobbyists who say that one-sided measures to curb global warming could make their industries uncompetitive have a point. Their argument is unashamedly self-interested. But it gets to the heart of the difficulty that will be faced by the world conference on climate change in Kyoto, Japan, in December.

Every nation wants to prevent the floods, storms and droughts that climate scientists believe could result from a continued increase in the earth's temperature as a result of greenhouse gases. But finding an equitable way of sharing the bill looks increasingly difficult.

US industry fears that it could lose out to the Third World. US motorists are addicted to cheap petrol. Japanese energy users say they have already spent much more than their competitors on improving efficiency – mainly in response to the oil price rises in the 1970s. Meanwhile European countries propose tough targets that reflect the fact that they are already scrapping coal-burning plants.

To find agreement in such discord, the Kyoto conference will need to consider some untidy solutions. First, it is already clear that a single target for reducing carbon dioxide emissions will be hard to agree and impossible to enforce. The EU has suggested a 15 per cent reduction between 1990 and 2010. Japan has been talking of a cut of 5 per cent. In the US, a buoyant economy and difficult politics makes a zero increase from 1990 levels seem ambitious.

The Kyoto meeting has more chance of success if it seeks a formula of equality of effort. A pledge by each nation to do what it can may produce better results than a target that is widely ignored.

Second, schemes must, as far as possible, make economic sense for other reasons – improving energy efficiency, for example; or reducing smog; or easing traffic congestion; or rescuing Chinese agriculture from acid rain.

Third, governments must make it clear that carbon taxes, where appropriate, will not raise the overall burden of taxation. If this is done, the cost to national incomes will be minimised.

Fourth, every effort must be made to encourage a world market in tradeable pollution certificates. These would allow industrial companies to meet national targets for reduced emissions by helping to clean up pollution in another – perhaps Third World – country.

Such a scheme operates successfully within the US (for controlling sulphur dioxide emissions). There are formidable difficulties to extending the idea internationally. But there could be two big advantages: co-operation from the Third World and reduced cost.

A vigorous trade in pollution certificates could in principle cut the cost of controlling greenhouse gases by half. It would involve transfers from rich to poor nations, but this need not be large compared with present aid flows.

Like all successful trading, it must exploit the self-interest of both sides. And that, rather than high morality or the imposition of global rules, is what Kyoto must be all about.

Euromergers

The managers of the companies formed by the European merger wave will need luck and skill to avoid destroying value. So much is common to all big mergers, and the companies planning to jump on the European bandwagon will not be deterred. But the current style of corporate restructuring may not be what Europe needs.

French defence apart, the deals proposed in the last few days – in financial services, building materials and publishing – are largely broadening rather than deepening. They add one company's geographical coverage or product line to another's, with little overlap. The combined company is much bigger and broader than either of its two predecessors.

The alternative approach is less glamorous, and less popular. It consists of merging the revenues of two overlapping operations, and dispensing with the costs of one of them. These transactions eliminate thousands of jobs; but can be extremely profitable.

In Europe's current conditions, however, such job-destroying mergers are disliked both by governments and by the managers of the acquired companies. They can rarely be achieved on an agreed basis.

In creating giant businesses by agreement, therefore, the European merger wave is storing up tensions for the future. At some point, the cost savings from merging overlapping businesses will become too great to ignore. But the companies carrying out such transactions will be the pan-European monsters created in the current search for breadth. The political fall-out of their belated search for cost cuts, when it comes, will be correspondingly greater.

Pro Prodi

Italy's politicians face a fateful choice – either a fresh lease of life for the centre-left coalition of Prime Minister Romano Prodi or a new election, one that will more or less determine whether their country makes an early entry into European monetary union. Either way, Italy's partners and friends have strong reasons to hope Mr Prodi comes out on top.

Since the old left of the misnamed Reconstructed Communism announced last Thursday that it would torpedo the government's 1998 budget, President Luigi Scalfaro has been scurrying around to try to bring the rebel RC back into a deal with Mr Prodi's Olive Tree coalition. But the latter has set tomorrow as the deadline for these negotiations, because in the event of failure, new elections must be held speedily so that a 1998 budget can be passed before 1998 arrives.

It is fashionable to say governments do not really matter these days, and to cite in evidence of this the case of Italy, which prospers despite the chaos in Rome. But governments are still important, and will remain so even in Emu. The single currency will be run by a federal central bank, but all supporting economic and fiscal policies are to stay largely in national governments' hands. The stability of these governments is therefore important. Indeed, one of Germany's main reservations about early Italian participation in Emu is the "ungovernability" of Italy.

Mr Prodi has patently not been able to make Italy more governable; his 18 months in government is only slightly longer than the average tenure of post-war premiers. But he has built up an unusual stock of political credibility by reducing inflation and deficits and bringing Italy to the point of qualifying for Emu.

In the past few days, he has reinforced this credibility by standing firm on his 1998 budget and pension reform; many lesser politicians anywhere, but particularly in Italy, would have scurried to meet the RC half way. It is tempting to believe that Mr Prodi could now handsomely capitalise on his credibility in a new election. Denouncing the dinosaurs of the RC and raising high the standard of Europe might seem a winning strategy, as a recent opinion poll suggests.

But such are the vagaries of the Italian political system that neither conventional left nor right is sure of a working majority, when the self-centred Northern League can count on many seats for itself.

The worst outcome would be an inconclusive election, with Italy drifting without a government into 1998 and the financial markets beginning to panic. This would send into reverse the present virtuous cycle of lower interest rates that have allowed faster deficit and debt reduction.

The best hope is thus that Mr Prodi can patch up his coalition, as last night he seemed confident of doing, thanks to the RC's apparent second thoughts about hacking down the Olive Tree. He should take this course, however, only if he can achieve a deal without damaging his principles. If such a bargain cannot be achieved, Mr Prodi might do better with an election after all.

Arranged marriages

Pan-European mergers are all the rage. Stefan Wagstyl considers what may be driving them

An extraordinary rush of European takeover announcements yesterday offered graphic evidence of the scale of pan-European consolidation.

At one extreme was the £23bn merger between Guinness and GrandMet, the British drinks groups, consummated with the grudging approval of LVMH of France. And at the other was the £2.3m acquisition of a stake in Slavia Prague, the Czech football club, by Enic, a London-based investment company.

In between were a £1.7bn bid in the world of building materials the creation of the world's largest scientific publishing group and no less than three cross-border deals in financial services (see below).

Yet it is by no means clear that European business will benefit in the long run from all this frantic activity. Academic research in the US suggests that takeovers have only about a 50:50 chance of success. And that is in a coherent national market. What distinguishesnearly all the current deals is that they are cross-border arrangements. In Europe, centuries-old cultural divisions mean that successful deals are even harder – though by no means impossible – to pull off. How widespread, then, will the building of genuinely pan-European companies become?

To judge by the forces driving cross-border diversification, such companies are likely to become widespread. For some national firms the imminent creation of European economic and monetary union is helping to concentrate minds. For many others it is the sight of US and east Asian rivals attacking European markets ever more aggressively.

Buoyant stock markets are providing finance for even the most ambitious plans. Acquisitions have become common in France, Germany, Italy and other Continental nations that once scorned "Anglo-Saxon" corporate finance. European mergers and acquisitions have reached more than $280bn in value already this year (including proposed deals), compared with $253bn last year and $148bn at the previous peak in the 1980s, according to Acquisitions Monthly, a specialist magazine. Just under half have been cross-border deals.

So what are the justifications for this activity? Many companies seek economies of scale. They hope to cut costs, notably in group-wide services such as head office administration. The potential is there in financial services deals, such as the proposed Generali-AGF transaction. Companies can also pool distribution networks to considerable effect, as Reed Elsevier and Wolters Kluwer are considering doing in publishing and as Guinness and Grand Met hope to do in drinks.

Cost cutting, when it works, is a benefit for any merger, purely domestic or international. Cross-border deals also help securing wider market access. For example, for Lafarge of France, the UK's Redland would bring access to new markets in the US, the UK and developing countries in eastern Europe – as well as new products such as tiles. "Globalisation and consolidation are driving these deals," says Stephen Barrett, head of corporate finance at KPMG, the accountants.

Mr Roger Abravanel, of the Milan office of McKinsey, the management consultants, argues the same economic forces which reshaped British industry in the 1980s are now working in Continental Europe. "The UK had Mrs Thatcher. Now global competition is forcing France. Germany and Italy to restructure."

All the same, today's dealmakers are no more assured of success than those of the past, as the recent demerger of Hanson, the leading UK conglomerate built in the 1980s, shows. According to a recent study of US mergers by Mercer Management Consulting, 57 per cent of all large deals since the mid-1980s delivered returns below the industry average three years after completion – hardly a ringing endorsement of M&A.

There is no comparable recent study of European mergers. But many experts think the results would be similar. The difficulties of cross-border deals in Europe are greater than within the US because of the region's cultural complexity. These difficulties are ebbing slowly: the spread of English as a business language and of computer technology is making European cross-border deals easier to manage. But they remain.

The potential rewards, however, are also bigger, as European companies, long operating in protected or semi-protected markets, offer more scope for cost-cutting. As one corporate financier says: "European companies tend to prepare very carefully for their deals. They are mainly consolidating within their industries buying companies they already know. These are not opportunistic buyers."

The upshot is that everything depends on implementation – as a handful of successful pan-European companies have shown. They include ABB, the Swiss-Swedish engineering group, formed from a merger between Swiss and Swedish rivals in 1989; the $90bn union of Sandoz and Ciba, the Swiss drugs companies, to create Novartis; and the takeover by Commercial Union, the UK insurer, of Groupe Victoire of France.

However, plenty of other examples highlight pitfalls in big deals in Europe. The merger of Sweden's Pharmacia and Upjohn of the US started with high hopes when the new company set up a headquarters in London to stop any American-Swedish rivalry. But the US and Sweden retained important administrative centres, so the deal failed to generate the expected benefits. The chief executive of the combined company left on its disappointing performance.

Bids and deals have become essential weapons in the European corporate armoury. But few have wielded them successfully.

Mergers à la mode

Guinness (UK) GrandMet (UK)	LVMH (France)	Settlement of dispute allows $39bn merger of Guinness and GrandMet, with LVMH having 10 per cent stake
Zurich Group (Switz)	BAT (UK)	Talks over sale of BAT financial services. New entity worth $35.7bn
Generali (Italy)	AGF (France)	Hostile $7bn bid for AGF – would create company with global premiums of $34bn
Reed Elsevier (UK/NL)	Wolters Kluwer (NL)	Merger to create world's largest scientific & professional publisher worth $20.3bn
Nordbanken (Sweden)	Merita (Finland)	Merger to establish largest bank in the Nordic region worth $10.6bn
Lafarge (France)	Redland (UK)	Hostile $2.8bn bid for Redland

Source: Reuters

Borderline on Europeanisation

With economic and monetary union less than 15 months away, closer integration of Europe's financial sector looks inevitable. To some, at least. They think new markets for financial products can be opened up by cross-border integration and costs can be saved – especially the high costs of information technology investment.

Moreover, European Union regulations permit financial institutions to expand freely across borders, allowing them either to set up shop in another country or sell directly from their home base.

The reality, of course, is different. In retail finance (though not wholesale businesses), cross-border selling of financial products remains limited, and ambitious plans to build pan-European financial conglomerates, like Crédit Lyonnais's disastrous acquisition spree in the 1980s, have hit the rocks. "Who has been successful in Europe? Nobody," says Philip Langguth, a financial services consultant with the Mitchell Madison group. One European insurer argues that "most companies which have expanded overseas have lost money. It is essentially a strategy adopted by weak companies seeking to protect themselves."

Why has cross-border diversification been so hard? One explanation is the persistence of local protective regulations. European directives notwithstanding, drivers in Germany are still required to hold motor insurance underwritten by a German insurer. Italy only fully opened up its huge motor insurance market to foreign competition in January last year. Efforts by Barclays Bank to offer interest on current accounts in France were firmly slapped down by the Banque de France, supposedly on monetary policy grounds.

In banking, strong customer loyalty has proved a barrier, though this has been less of a problem in general insurance – which helps explain the current mergers.

The other explanation is that some of the biggest European financial institutions have become so powerful at home that they have little alternative but to look abroad. That is true for Allianz, Generali and Zurich in insurance. So AGF, for example, offers Generali a quick way into the French and Spanish markets, while BAT's Farmers subsidiary would give Zurich a new channel for distributing its fund management products in the US.

The explanation may hold good for the biggest banks in the Netherlands and Scandinavia, and perhaps even the UK where companies' home market share is so great that expansion can only come from abroad.

George Graham

· OBSERVER ·

The Trieste lion roars

■ It's taken two years for Frenchman Antoine Bernheim to shake Italy's largest insurer Assicurazioni Generali out of its lethargy.

The septuagenarian Lazard Frères deal-maker was appointed chairman of the sleeping "Lion of Trieste" two years ago, but got off to a slow start. First he was out-manoeuvred by Claude Bébéar, aggressive head of the French Axa insurance group, and forced to shed Generali's 11 per cent stake in Axa. Then Generali failed in a bid for Austrian bank Creditanstalt.

The FFr55bn ($9.25bn) bid for French insurer AGF restores Bernheim's wheeler-dealer reputation, and signals strongly that the *salotto buono* (inner circle) of Italian finance and business shouldn't be written off.

The Frenchman – who is also deputy chairman of Mediobanca, which controls about 13 per cent of Generali – appears to have been particularly active in shaking up the *salotto buono*. He's understood to have backed the younger Mediobanca generation led by Gerardo Braggiotti against the old guard to force the ultra-secretive Milan merchant bank to adapt to new market conditions.

There had been speculation that Generali was considering joining forces with French raider François Pinault to counter-bid in the battle for the Worms group. Generali has been eyeing Worms's insurance subsidiary Athena.

But Worms is being fought over by its two main shareholders, the Agnelli Ifil holding and AGF. Generali is the fourth largest shareholder in the Agnellis' Fiat automotive group. The Agnellis want Worms's industrial portfolio and are quite happy for Athena to go to the highest bidder.

Of course, Generali is insisting that the bid for AGF – which is the biggest cross-border buy ever attempted by an Italian company – is entirely its own idea, but there's a faint whiff of an Italian job being mounted in France.

Bottoms up

■ The spirits of Bernheim's compatriot Bernard Arnault must have risen substantially on yesterday's deal between his LVMH luxury goods group and the soon-to-be-united Guinness and GrandMet.

The cool Arnault recently saw off argumentative minorities to take effective control of Duty Free Shoppers of the US and still has other battles under way, not least the fierce scuffle for control of Château d'Yquem, the French sweet white dessert wine, where he has won over some of the family shareholders. Perhaps a celebratory stiff drink over the Guinness-GrandMet deal is in order, then battle will continue in earnest.

Half holiday

■ America seems unable to make up its mind about Columbus Day. The crowds dancing down New York's Fifth Avenue, and the closed schools and government offices proclaimed it was a public holiday. But on Wall Street, while the world's largest bond market took a rest, the world's largest stock market next door traded as usual. Some of corporate America's leviathans, such as Travelers Group, even issued results.

Columbus has become a controversial figure in recent years, with some political groups objecting to the holiday. And the second Monday of October is an odd time for a break, coming mid-way between the much more widely observed Labor Day in early September, and Thanksgiving at the end of November.

This equivocal attitude has turned a national holiday into a national irritation – workers have to battle their way through street parades, and nobody seems sure whether they're on duty. Some top dogs strike a relaxed tone – American Express chief executive Harvey Golub was at his desk yesterday, but sported a patterned sweater – while John Chalsty, boss of investment bank Donaldson Lufkin & Jenrette, admitted that the choice of a national holiday to announce his company's quarterly results was even a puzzle to him.

Mould breaker

■ US sportswear manufacturer Nike seems pretty determined not to be sidetracked from its main business in Vietnam: making sports shoes. So it wasn't too amused when it discovered that two employees at its Taiwanese-owned Pou Chen subcontractor had used the factory's kit to turn out 36 exotically-shaped plastic sex aids as a birthday prank on a company official.

Things went from bad to worse when a bunch of workers got hold of the mould and tried to blackmail Pou Chen, threatening to spill the beans to the local press and embarrass all and sundry unless they were handed $30,000. Nike wasn't having any and fined the Taiwanese company $5,000. The dosh won't be wasted: it'll be spent on much-needed "culture and sensitivity" training at the factory.

The Financial Times

100 years ago

The Indian Campaign
Simla: The Malakand force, under General Sir Bindon Blood, reached Jhar yesterday. The attitude of the tribes in the region is friendly, and there has been no kind of hostile demonstration. Reconnoitring parties have found the Salarzai villagers to be favourably disposed towards the British. According to a report from Wana, the Mullah Powinda is summoning a Mahsud Lashkar, and 1,000 men have already joined him. The Mullah's intentions are not known, but no hostile action on his part is considered probable.

50 years ago

Daimler Rumour Denied
Mr George Halley, managing director of the Daimler and Lanchester companies, authorised a statement that there is no intention to cease the manufacture of either company's cars. He emphasised that every effort is being made to increase production of cars especially for the export market. This statement follows a report that the Daimler Company had made staff cuts which might result in the withdrawal of the company's cars and concentration upon production of omnibuses.

FINANCIAL TIMES
Tuesday October 14 1997

Britain positioned for early entry into Emu

By Lionel Barber in Luxembourg

French finance minister Dominique Strauss-Kahn (left) and German counterpart Theo Waigel before yesterday's meeting AP

Britain's Labour government yesterday positioned itself for early entry into European economic and monetary union but avoided giving its European Union partners the firm commitment to the single currency they are seeking.

At a meeting of European Union finance ministers in Luxembourg, Gordon Brown, UK chancellor of the exchequer (finance minister), won endorsement for a programme showing Britain will comfortably meet the criteria for Emu membership this year.

The British forecasts assume the UK will match or outperform France, Germany, Italy and others in terms of reducing public deficits and government debt ahead of the planned launch of Emu on January 1 1999.

But Mr Brown – wary of opinion polls showing that more half the British people remain sceptical about the single currency – insisted it was "highly unlikely" Britain would join the first Emu wave.

"There are formidable obstacles. What I am showing today is that we have got in place, in or out of Emu, the long-term foundations for stable and sustainable growth," he said.

Jean-Claude Juncker, Luxembourg's prime minister, said he hoped Britain would join Emu at the outset rather than wait to jump aboard the last wagon: "It would be in the best interests of Britain and the best interests of Europe if Britain were to join [Emu]."

Theo Waigel, Germany's finance minister, agreed: "The overwhelming majority of countries believe that monetary union would be stronger with Britain's participation."

The British government is expected to clarify its position on Emu in a statement to parliament next month. That is likely to balance a decision to rule out joining the single currency in 1999 with a willingness to join at a later date when the UK economic cycle is more in tune with Germany's.

The European Commission will today produce its growth forecasts for 1997-98, which will help to identify those countries likely to meet the entry criteria for monetary union, laid down in the 1992 Maastricht treaty. At least 10 countries are close, but there is some doubt over whether Italy would qualify.

Yesterday's Luxembourg meeting was overshadowed by the Italian government crisis. Carlo Azeglio Ciampi, acting treasury minister, expressed optimism that a solution would soon be found and that Italy would meet the criteria for Emu on schedule.

Mr Waigel declined to be drawn on Italy's prospects. But other EU member states such as Austria and France – both of which have close trade ties with Italy – are active supporters of Italian participation.

Rudolf Edlinger, Austrian finance minister, said: "We hope that Italy will get this very ambitious [budget] through parliament because it is a precondition for them to fulfil the [Emu] criteria in a sustainable manner."

Italian budget crisis, Page 2
Editorial Comment, Page 17

Shell chief warns over timespan on new fuel use

By Robert Corzine in London

The world will probably need to develop all its oil and natural gas reserves before enough renewable energy sources become available next century, according to the chairman of the largest international oil company.

Cor Herkströter, of Royal Dutch/Shell, said the group was committed to developing renewable energy sources into a new core business, but he warned countries "not to expect miracles".

He predicted that the market share of renewable sources such as solar energy and biomass (using sustainable forestry) would grow rapidly between 2025 and 2050, and could account for half the world's energy needs.

But growth in the use of renewables would be relatively slow over the next few decades, accounting for perhaps 7-8 per cent of world energy demand within 25-30 years, he said.

"It's not just a matter of money. Technology also needs to be developed and projects put together."

Progress depends on breakthroughs in information technology and introducing new industrial materials. But, in the absence of dramatic developments, he said the world would probably need to exploit all its oil and gas. This could involve using heavy oil that is rarely developed and petroleum locked away in oil shales.

Shell will announce detailed plans for developing renewable energies on Thursday.

Although Mr Herkströter said there was still no firm evidence of global warming, Shell supported action to reduce the emission of greenhouse gases. But he said European Union proposals for a 15 per cent cut from 1990 levels by 2010 were unrealistic. He said a 5 per cent reduction over 10 years would be a better solution.

Shell is anxious that governments meeting in Japan in December must agree on ways to combat greenhouse gases. He said failure to agree would pose serious problems for global businesses such as Shell, as they would be forced to meet conflicting national targets for emission reductions.

● Shell yesterday published findings of a study into the disposal of the obsolete Brent Spar oil storage installation, anchored in a Norwegian fjord, writes *Altay Ural*. Shell is to consult interested parties before making a final decision.

Editorial Comment, Page 17

Thailand eases rules for rescuing finance groups

By Ted Bardacke in Bangkok

The Thai government yesterday relaxed criteria for the rescue of 58 suspended finance companies, before an announcement today of a broader package of measures to restructure the country's financial system.

Restrictions will be eased on foreign investment in the suspended companies, which will also be allowed up to eight years to repay Bt430bn ($11.86bn) borrowed from government for emergency needs.

Foreign investors will be able to hold more than 50 per cent of suspended companies for 10 years. These foreign majority stakes could be reduced gradually via capital increases only available to Thai investors. Previously foreign investors were allowed only five years' majority control after which they had to sell their stakes outright.

The suspended companies will also be allowed to swap some of their government debt for capital, and there will be a three-year reduction in hefty initial capital requirements.

The companies have been given another two weeks to submit revised rescue plans. The government is likely to take another month to scrutinise the plans. A final resolution of many investor concerns is unlikely before December.

The additional measures to be announced today will include the establishment of a financial restructuring agency (FRA) empowered to take over the operations of financial institutions unable to revive themselves on their own.

An asset management company (AMC) will also be set up to dispose of collateral and other assets collected from troubled companies.

Yesterday's announcement in effect puts off the question of how many companies will be able to recover without merging with stronger partners. The proposed FRA and AMC are unlikely to be able to tell creditors of the suspended companies how they will be treated, and so they will not be able to work out a final government price for restructuring the system.

Analysts said only a few of the suspended companies would be able to recover alone. This raised the prospect of mergers with stronger partners, possibly bringing in foreign participation, they said.

Government officials said if more companies could resume business or merge with others the cost of restructuring would be reduced.

Yesterday's measures were announced a day earlier than expected and follow the resignation at the weekend of Amaret Sila-on, chairman of a government committee dealing with the suspended companies.

Mr Amaret, who came to favour shutting down most of the companies, on advice from World Bank experts, said the issue of the companies had become a "political football" after they had successfully lobbied Chavalit Yongchaiyudh, the Thai prime minister.

Unfinished business, Page 6

THE LEX COLUMN

Mad Monday

Call it Mad Monday. It is certainly tempting to view five multi-billion dollar bids in a day as evidence that managements are being carried away by equity market exuberance.

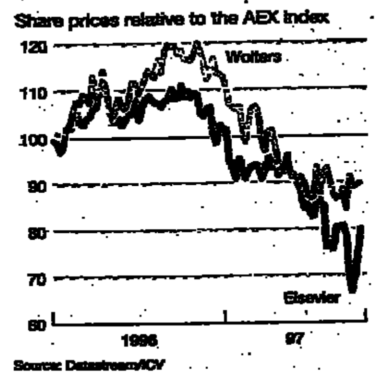
Fortunately, none of the bids looks downright crazy. These are not the financially driven bids of yesteryear. Indeed, all are sticking within their own industry and have a veneer of industrial logic. That said, most of this is softish stuff about attaining greater scale and global (or regional) reach. It is striking that all five bids – Generali/AGF, Lafarge/Redland, Reed Elsevier/Wolters Kluwer, BAT/Zurich Group, Nordbanken/Merita – are cross-border. No harm in that. But these combinations are not based primarily on the harder logic of stripping out duplicate costs. With BAT and Nordbanken, at any rate, domestic mergers would have delivered more obvious shareholder value. There must be concerns that executives are being carried away by the rhetoric of globalisation.

The financial logic of this merger spate is also middling. It is refreshing that the near-taboo on hostile bids in France is crumbling – with French corporates either initiating or on the receiving end of all the unfriendly activity. Moreover, insofar as deals are all-paper mergers, it matters little if this is the top of the market. But not all are. The most worrying are those French deals, where the bidder pays in paper but guarantees a minimum value. If equities do fall, such promises will have a nasty after-taste.

FTSE Eurotop 300 index: 987.7 (+15.9)

Wolters Kluwer/Elsevier

Share prices relative to the AEX index



Source: Datastream/ICV

Reed/Wolters

The big winners in Reed Elsevier's £20bn ($32bn) merger with Wolters Kluwer are Reed's British shareholders. Elsevier's investors have done fairly well too. Wolters Kluwer's receive the wooden spoon. The smaller company's shareholders normally expect a premium. In this case, Wolters has settled for a discount: each Wolters share, worth 9 Elsevier shares last Friday, is being exchanged for only 7.85 – a 12¼ per cent discount. Is the fact that Cor Brakel, Wolters chief executive, gets to run the combined group anything to do with this?

In exchange for allowing the Dutch to lead the group, Reed has extracted a technical but highly attractive concession: dividends will be equalised on a net rather than gross basis. What this means is that the new company will no longer clip the dividends Reed's shareholders receive in the expectation that the British tax authorities will make up the difference. This change should narrow the discount that Reed shares trade on relative to Elsevier's. With luck, other Anglo-Dutch groups like Royal Dutch/Shell and Unilever, which have similar dividend-clipping arrangements, will follow suit.

The merger is not devoid of industrial logic; Wolters can access Reed Elsevier's more developed electronic distribution systems, and new products can be created combining complementary content from the partners. But all this is rather thin. The most compelling reason for merging is that it will reduce competition for the next big information acquisition.

AGF/Generali

Suddenly it is open season for hostile pot-shots at big French companies. And with Generali's raid on AGF, the targets are getting ever closer to the heart of the business establishment. Of course, one might think Generali, a long-underperforming insurer at the heart of Italy's cosy *salotto buono*, is a bidder at a natural credibility discount. But do not be misled; the logic of the offer is real. The reason is that Generali already has big insurance businesses in France. So putting together AGF with Generali, especially if AGF were also to win middle-rank insurer Athéna in the bid for Worms separately under way, should create real value.

Yet for precisely this reason, Generali's FFr55bn ($9.2bn) offer looks a rather transparent opening-shot. The premium to AGF's heavily discounted share price may be 28 per cent, but the premium to net asset value is much less. Indeed, it would not be surprising if AGF can demonstrate it is worth Generali's offer as a stand-alone business – allowing no premium for control, nor for cost savings.

At this price, many naturally expect another big insurer such as Allianz to enter the fray. For what it is worth, however, this would make little sense. Logically, Generali should be able to outbid any obvious rival since its bigger French business means it can take more costs out. More pragmatically, what is to stop Allianz sitting back, letting Generali nab AGF and instead snapping up the soon-to-be-privatised GAN?

Nordbanken/Merita

The problem with being late for dinner is that you have to make do with the scraps. So many Scandinavian banks and insurers have already paired off that the SKr80bn ($10.6bn) merger of Nordbanken of Sweden and Finland's Merita looks like a second-best combination.

Because both are principally domestic retail banks there are few overlaps. Projected cost savings and cross-selling benefits of Skr970m are tiny against the size of the deal. A purely Swedish merger of Nordbanken and SE-Banken, discussed earlier this year, would have realised far greater value. And the proposed structure, with separate holding companies, a rotating chairman and headquarters in Helsinki and Stockholm, looks complicated and difficult to manage. In valuation terms, Merita seems to have got a slight edge: though smaller and less efficient, its shareholders will end up with 40 per cent of the capital and half the votes of the enlarged group. No wonder Merita's shares jumped 10 per cent yesterday, while Nordbanken's sagged.

Though this merger creates a Scandinavian giant, the result is still a European pygmy. The new bank will just about squeeze into Europe's top 30. The only way this deal makes sense is if MeritaNordbanken turns itself into a sort of Nordic vacuum cleaner – sucking up other financial companies – as indeed management suggested. The Norwegians and Danes look particularly small and vulnerable following all the consolidation around them.

Additional Lex on Redland and GMG/LVMH, Page 26

FT WEATHER GUIDE

Europe today

Much of Scandinavia and central and eastern Europe will stay unseasonably cold with showers in many places, although southern Norway and Sweden should remain and sunny.

There will be snow in northern Scandinavia and over the Alps.

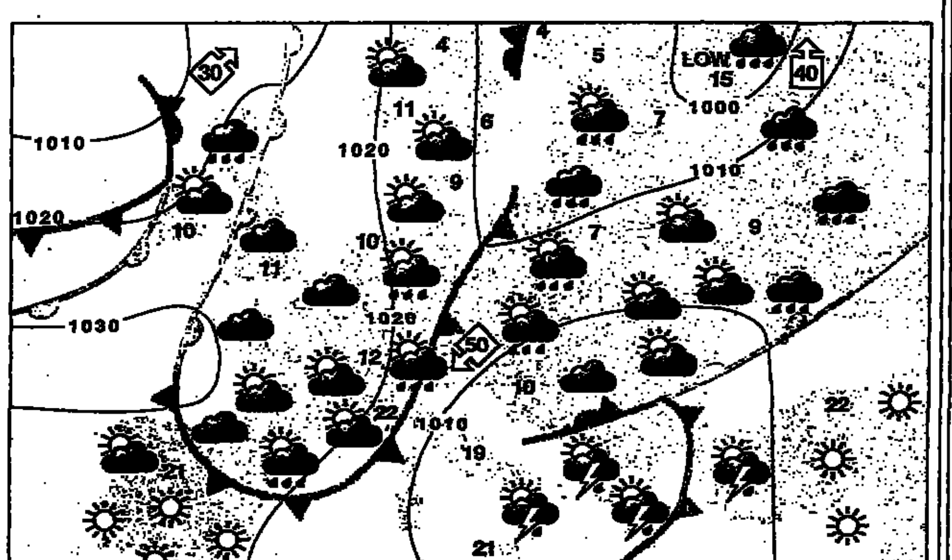
There will be cold winds and showers in eastern France but western France should be mainly dry and bright.

The central and eastern Mediterranean will be fairly warm but showery, with thundery downpours likely in southern Italy and western Greece.

The Iberian peninsula should be warm and sunny away from the cloudy north coast.

Five-day forecast

Northern Europe will remain cold and unsettled, with showers on Thursday merging into longer spells of rain across central and eastern Europe. The western Mediterranean will be warm and sunny, but the east will continue to be thundery.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	Fair	34	Beijing	Sun	21	Cardiff	Cloudy	11	Frankfurt	Shower	10	Madrid	Sun	21	Rangoon	Fair	33
Accra	Fair	31	Belfast	Rain	11	Casablanca	Fair	25	Geneva	Shower	12	Majorca	Sun	20	Reykjavik	Cloudy	9
Algiers	Shower	21	Belgrade	Rain	12	Chicago	Fair	12	Gibraltar	Fair	21	Malta	Fair	22	Rio	Fair	31
Amsterdam	Shower	12	Berlin	Shower	9	Cologne	Rain	9	Glasgow	Cloudy	12	Manchester	Rain	11	Rome	Thunder	19
Athens	Thunder	23	Bermuda	Cloudy	26	Dakar	Fair	31	Hamburg	Shower	9	Manila	Fair	33	S. Frsco	Sun	27
Atlanta	Shower	23	Bogota	Shower	21	Dallas	Sun	24	Helsinki	Fair	5	Melbourne	Shower	17	Seoul	Fair	18
B. Aires	Thunder	23	Bombay	Sun	36	Delhi	Sun	32	Hong Kong	Fair	30	Mexico City	Drzzl	22	Singapore	Fair	31
B.ham	Fair	11	Brussels	Shower	11	Dubai	Sun	34	Honolulu	Fair	30	Miami	Thunder	31	Stockholm	Cloudy	8
Bangkok	Shower	34	Budapest	Shower	10	Dublin	Cloudy	11	Istanbul	Thunder	21	Milan	Sun	17	Strasbourg	Shower	11
Barcelona	Sun	20	C.hagen	Fair	9	Dubrovnik	Thunder	16	Jakarta	Sun	33	Montreal	Shower	18	Sydney	Sun	25
			Cairo	Sun	34	Edinburgh	Cloudy	12	Jersey	Cloudy	13	Moscow	Rain	15	Tangier	Fair	23
			Caracas	Fair	32	Faro	Fair	23	Johannesburg	Fair	21	Munich	Shower	9	Tel Aviv	Sun	35
									Karachi	Sun	35	Nairobi	Shower	27	Tokyo	Shower	22
									Kuwait	Sun	40	Naples	Rain	17	Toronto	Fair	14
									L. Angeles	Sun	30	Nassau	Shower	30	Vancouver	Drzzl	14
									Las Palmas	Fair	26	New York	Shower	22	Venice	Cloudy	17
									Lima	Fair	23	Nice	Sun	22	Vienna	Thunder	9
									Lisbon	Fair	21	Nicosia	Thunder	29	Warsaw	Cloudy	7
									London	Cloudy	11	Oslo	Fair	11	Washington	Fair	24
									Lux.bourg	Shower	9	Paris	Shower	13	Wellington	Fair	13
									Lyon	Thunder	12	Perth	Sun	27	Winnipeg	Fair	9
									Madeira	Fair	23	Prague	Shower	6	Zurich	Thunder	8

FINANCIAL TIMES
COMPANIES & MARKETS

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INSIDE

Dresdner under the spotlight

Dresdner Bank, long the silent monolith of German banking, has been pushed into the spotlight by troubles in its boardroom. The latest blow came last week when Jürgen Sarrazin (left), chief executive, announced he would not be standing for election to Dresdner's supervisory board. The board's problems have raised questions about the bank's direction at a time when it is trying to build its position as a global company in investment banking. Page 21

Turkish stock market puzzles brokers
There was cheering in Istanbul trading rooms yesterday as the stock exchange's IMKB index burst through the 3,000 barrier. The Istanbul market has risen by nearly half in dollar terms in just over a month but, as one broker said: "It is puzzling a lot of people." Page 40

Restructuring for Indian Hotels
Indian Hotels, the country's biggest hotel group, faces sweeping changes under Ratan Tata, the new chairman. The restructuring could involve the sale of the group's hotels in the UK, the US and Hong Kong, and the scaling back of its expansion plans at home. Page 20

Clash of cultures in Slovenia
Upheavals at two Slovenian companies have highlighted the problems of outside shareholders introducing western-style corporate governance to a former communist economy. Page 23

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 30

Chief price changes yesterday

FRANKFURT (DM)			[illegible]	840.25 +	11.25
Rises			**Falls**		
Adidas	244.5 +	3.5	[illegible]	350.8 −	2.9
Allianz	453.5 +	18.5	Lafarge	430.1 −	3.2
Klockner Wrke	138.8 +	5.7	**TOKYO (Yen)**		
SAP	498.5 +	8.5	**Rises**		
Falls			Daikyo Inc	190 +	9
Goldschmidt	575 −	15	Hattori Seiko	625 +	15
Veba	103.5 −	1.0	Konica	635 +	12
NEW YORK ($)			**Falls**		
Rises			Chiyoda Crp	220 −	10
Elsevier NV	33⅞ +	3¾	Daifuku	750 −	68
Galoob	21⅛ +	2⅞	Gunze	332 −	22
Reed Intl	40⅞ +	5⅞	**HONG KONG (HK$)**		
SCOR	44½ +	2	**Rises**		
Falls			Cross Har Tun	15.35 +	0.15
Kyocera	122 −	5	**Falls**		
Manitowoc	36⅞ −	1¼	Beijing Ents	35.5 −	5.4
LONDON (Pence)			Cathay Pc Air	8.95 −	0.85
Rises			China Res	26.35 −	1.05
DBS Mngmt	172½ +	18½	New Wrld Dv	44.2 −	1.3
Peek	78½ +	36½	Shanghai Indl	38.1 −	2.6
Redland	336¼ +	78¼	**BANGKOK (Baht)**		
Reed Intl	629 +	97	**Rises**		
Falls			Bangkok First	45.0 +	4.0
Premier Farn	525½ −	24½	City Sports	28.75 +	2.5
SuperscapeVR	123½ −	15½	Intl Eng	11.75 +	1.0
PARIS (FFr)			Phoenix Pulp	15.75 +	1.25
Rises			**Falls**		
BIC	432 +	10.2	Castle Peak	64.0 −	5.5
BNP	315.5 +	9.9	EMC	18.5 −	2.0
CPR	473 +	5.5			

Market closed: Toronto. New York prices at 12.30pm.

Reed-Elsevier in $32bn merger

Deal struck with rival Wolters Kluwer

By Gordon Cramb in Amsterdam and John Gapper in London

Reed International of the UK is set to become part of an international publishing combine with its headquarters in the Netherlands after a £20bn ($32bn) merger agreed yesterday between Elsevier, its partner since 1993, and Wolters Kluwer, a domestic rival.

The new group will be the world's biggest supplier of professional and scientific information, with combined sales which last year would have reached £5bn.

Shares in all three companies jumped on the planned share swap between Elsevier and Wolters Kluwer. The combined group will maintain operating companies in London and Amsterdam, but these may eventually be combined.

Cornelis Brakel, Wolters Kluwer chairman who is to head the enlarged operation, said the deal would bring a balanced portfolio of products and geographic spread, and could reap cost savings of at least £50m after three years.

Back office and procurement functions could be integrated, and they could share the expertise as well as the expense needed to develop electronic means of delivery. Reed Elsevier is stronger in online services such as databases, while Wolters Kluwer supplies more on CD-Rom.

"Putting together the electronic publishing skills will mean we do not have to discover the world twice," said Mr Brakel, adding that 30 per cent of revenues could come from non-print businesses.

He made clear that the group intended to go no further into consumer publications, which will account for barely a tenth of total income. Reed Elsevier owns IPC Magazines in the UK, publisher of 70 such titles, but its consumer book activities are to be sold.

The biggest division – 41 per cent of the total – will be targeted at legal, tax and other professionals. Business publishing is to account for a further third, with medical and scientific titles comprising most of the remainder.

Mr Brakel said he "will not say no for 100 years" to the prospect the group could expand into related sectors, such as providing financial information. Analysts last night were speculating that the still unnamed entity could make a bid for a company such as Reuters.

Market capitalisation was a combined £17.5bn – based on prices at Friday night's close. But yesterday, shares in Reed, the partner thought to benefit most, added 97p in London to 629p. In Amsterdam, Elsevier ended Fl4.70 ($2.38) higher at Fl33.10 and Wolters Kluwer at Fl265.70 put on Fl10.70.

The agreement in principle comes 10 years after Elsevier launched a hostile bid for the then Kluwer, which arranged a defensive merger with Wolters Samsom.

But Mr Brakel pointed out he and Herman Bruggink, Reed Elsevier co-chairman, had each worked at the other's company, and understood well the respective operations.

Lex, Page 18

LVMH chief ends opposition to merger

By John Willman in London, Andrew Jack in Paris and Emma Tucker in Brussels

Peace was declared yesterday in the five-month battle between Guinness and Grand Metropolitan of the UK and LVMH of France over plans to merge the two UK companies and form the world's largest drinks group.

Bernard Arnault, LVMH chairman, agreed to drop his opposition to the £24bn ($38.8bn) merger and end proceedings to terminate nine joint distribution ventures between the French luxury goods group and Guinness. In return, Guinness will pay LVMH £250m when shareholders approve the merger, repayable if the deal falls through.

LVMH will allow GrandMet to sell its brands through the joint ventures, bringing cost-savings estimated at £40m a year to be shared equally between the two sides.

"This gives us certainty over the merger," said Tony Greener, Guinness chairman. "We can now put the deal to shareholders without fears over arbitration and with no opposition from Mr Arnault."

The announcement was welcomed by the markets, with Guinness and GrandMet shares up 28½p and 21p at 605½p and 604p respectively and LVMH rising FFr25 to FFr1,248.

"They had their showdown at the OK Corral, decided to put their guns away and retire to the bar," said Ron Littleboy at Nomura.

The merged company, to be called GMG Brands, would have twice the turnover of its nearest rivals, the UK's Allied Domecq and Seagram of Canada. Mr Arnault, who will become a non-executive director of GMG, said he would maintain a stake of at least 10 per cent in the combined group.

An official in the European Commission confirmed that Mr Arnault's decision to back GMG would not affect its approval of the merger which is due tomorrow. The two companies have met all the conditions demanded by Brussels, including concessions in areas covered by the joint ventures with LVMH.

"They have gone all the way," said the official.

Observer, Page 17
Ceasefire agreed, Page 26
Lex, Page 26

Lafarge in hostile bid for UK tile company

By Andrew Taylor and Andrew Edgecliffe-Johnson in London and Robert Graham in Paris

Lafarge, of France, the world's second-largest cement manufacturer, yesterday launched a £1.67bn ($2.7bn) hostile bid for Redland, the beleaguered UK tiles and aggregates company.

The 320p per share offer, which Redland advised its shareholders to reject, comes after six years in which Redland's shares have lagged the market by 75 per cent.

The company's share price surged by 31 per cent to 336¼p in the hope that a higher offer might emerge either from Lafarge or a rival bidder. Lafarge shares fell FFr3.2 to FFr430.1.

Rudolph Agnew, Redland's chairman, advised shareholders to stay calm, saying that the group had been examining ways of releasing cash share to investors before the Lafarge offer. "There are a number of ways this could be achieved, ranging from floating part of the business, a trade sale, a share buy-back or by seeking a higher offer for the whole group," he said.

Brokers said potential rival bidders for Redland included Hanson and RMC, competing UK aggregate and concrete producers, and Pioneer, the Australian building materials group.

Other options thought to have been considered by Redland, under its strategic review, include disposing of its 56.5 per cent owned European roof tile business, based in Germany. However, this could be difficult given the powerful minority holdings and the recent poor performance of the subsidiary.

Pre-tax profits at Redland after exceptionals fell by almost two thirds to £34.5m in the first six months of this year.

Bertrand Collomb, Lafarge chief executive, said a takeover of Redland would make the group the world's largest aggregates and roof tile producer as well as the second-largest cement and concrete producer.

The deal, to be financed by debt, would lift the group's debt to about FFr27bn compared with equity of about FFr37bn.

Mr Collomb did not rule out a further small equity issue – "of up to FFr5bn" – should this be needed to fund expansion in other areas of the cement operation.

The purchase of Redland – which five years ago became France's largest aggregate producer when it bought British rival Steetley for £1bn – would take Lafarge into the roof tile business for the first time.

Mr Collomb said Lafarge increasingly had been seeking to diversify its building material interests. The combined businesses would have a 20 per cent share of the French aggregates market.

Institutional shareholders, who have been calling for the resignation of Robert Napier, Redland's chief executive, said last night they expected a higher value to emerge from a revised bid or from Mr Agnew's plans.

One warned against shareholders being tempted to "bite Lafarge's arms off" because of their disenchantment with Redland.

Rival bidders, Page 26
Lex, Page 32

Merita plans Nordbanken merger

Finnish bank unveils $10bn cross-border consolidation

By Tim Burt in Stockholm

Merita, Finland's largest bank, yesterday announced a SKr80bn ($10.6bn) plan to create the largest financial services group in the Nordic region by merging with Nordbanken, Sweden's fourth-largest lender.

In what is thought to be Europe's first cross-border merger between retail banks, MeritaNordbanken – as the new bank will be known – will boast total assets of SKr800bn, combined loans of SKr480bn and some 6.5m customers.

The friendly merger marks the latest stage in the rapid consolidation of the region's financial services industry, and follows two months of intensive talks between Merita and Nordbanken, which is 59.4 per cent owned by the Swedish government.

Vesa Vainio, chief executive of Merita, said the proposed deal could herald a broader alliance with other lenders, adding: "We are inviting financial companies in the Nordic countries and Baltic region to participate in this growth."

Industry analysts yesterday suggested the enlarged group could be seeking a partner in Denmark, where bank shares yesterday rose sharply on news of the Finnish-Swedish alliance.

Shares in Nordbanken, however, yesterday fell SKr4.50 to SKr274 in Stockholm, while Merita's most commonly traded A shares rose FM2.90 to FM28.10 in Helsinki.

Jacob Palmstierna (left) and Vesa Vainio: intent on forming the region's largest banking group AP

Analysts believed the Nordbanken share price reflected concerns that it could have achieved greater cost savings by merging with a domestic competitor, such as Skandinaviska Enskilda Banken.

Nevertheless, Jacob Palmstierna, chairman of Nordbanken, said the enlarged group would realise annual cost and revenue synergies of SKr970m within three years by eradicating administrative overlap and cross-selling of products.

The savings are expected to involve a Skr850m restructuring, with some 600 jobs likely to go in initial cost-cutting.

Mr Palmstierna forecast revenue savings of SKr340m through, for example, selling Merita's life insurance products in Nordbanken's branch network and marketing the Swedish bank's mutual funds business in Finland.

The merger should be completed later this year after the disposal by the Swedish government of shares representing 12 per cent of Nordbanken. Erik Asbrink, the country's finance minister, said the offering to international investors would raise about SKr6bn.

The share sale will leave the government with about 28 per cent of MeritaNordbanken, a new holding company headquartered in Helsinki but with its senior management based in Stockholm. Nordbanken will receive 60 per cent of the share capital while Merita will have 40 per cent. Both banks will have 50 per cent of the voting rights

Nordbanken was advised by Credit Suisse First Boston, Merita by Lazard Brothers and the Swedish government by Merrill Lynch.

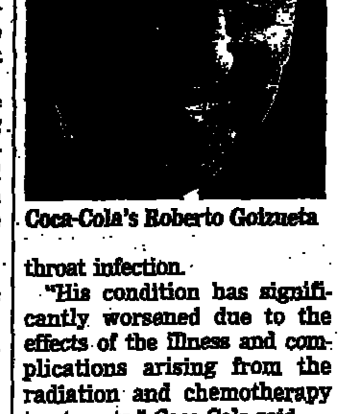
Lex, Page 18
Merged bank aims for Nordic dominance, Page 24

Coca-Cola chief 'critical' after cancer treatment

By Richard Tomkins in New York

Roberto Goizueta, chairman and chief executive of Coca-Cola, was yesterday in critical condition in Atlanta's Emory University Hospital with complications arising from his treatment for lung cancer.

Coca-Cola said Mr Goizueta, 65, had been placed in intensive care after being readmitted to hospital for the treatment of a fever arising from a throat infection.



Coca-Cola's Roberto Goizueta

"His condition has significantly worsened due to the effects of the illness and complications arising from the radiation and chemotherapy treatments," Coca-Cola said.

Mr Goizueta has told the company he does not expect to attend a board meeting scheduled for Thursday. In accordance with company rules, he has asked James Williams, chairman of the finance committee, to chair the meeting.

Mr Goizueta also advised the board that he had asked Doug Ivester, president and chief operating officer, to stand in as chief executive at the employee briefing that usually follows board meetings.

Although Mr Goizueta is credited with having transformed Coca-Cola into one of the world's biggest and most powerful companies since taking over in 1981, the shares were down just ⅛ at 61⅝ in early afternoon trading yesterday, reflecting Wall Street's confidence that a strong management succession is in place.

Mr Goizueta, a heavy smoker, was diagnosed as having lung cancer early last month. He was admitted to Emory University Hospital, but went home two weeks later while continuing to receive chemotherapy and radiation treatment.

In spite of his disastrous introduction of New Coke in 1985, Mr Goizueta is one of the most respected executives in the US, having increased Coca-Cola's market value from $4bn in 1981 to more than $150bn. Today, the company is outranked only by General Electric, Exxon and Microsoft in market capitalisation.

In April 1994, Coca-Cola's board asked Mr Goizueta to stay on indefinitely past the normal retirement age of 65, and no successor has ever been officially named. But Mr Ivester, 50, has long been regarded as his heir apparent.

Andrew Conway, an analyst at Morgan Stanley, said:

"He's [Mr Ivester] one of the brightest, most innovative chief operating officers Coca-Cola has ever had."

Hanwa shares rally on buy-back plan

By Gillian Tett in Tokyo

Hanwa, a Japanese trading company, is to buy back a significant proportion of its own shares.

The group plans to cut its capital by about Y39bn ($325m) by buying about 100m of its shares – or 25 per cent of the total stock.

Although restrictions on buy-backs were eased two years ago in Japan, most companies regard the concept with suspicion.

Last week's announcement pushed Hanwa's share price sharply higher. The stock yesterday closed in Tokyo at Y217, after trading was resumed following suspension. Last Wednesday the stock was trading at Y161.

Hanwa's move may prompt other companies to consider similar steps, analysts said yesterday.

An official at Daiwa Securities, which is organising the buy-back, said: "The attitude of Japanese executives is changing on the matter of corporate governance – they are starting to give more attention to shareholders."

Hanwa yesterday said it was making the move to improve its capital structure, and enable it to start repaying dividends. It was also restructuring the business, it said.

The company last paid a dividend in 1994, and its poor business performance has triggered a sharp decline in its share price.

Although the stock traded at about Y1,500 in 1993, it plunged to below Y300 during 1994, as Hanwa suffered from the collapse of Japan's bubble economy and recorded a heavy loss. It made small profits in 1996 and 1997.

"Hanwa is now trading well below its book-value or break-up value – but there are a lot of companies in Japan doing that," said Ken Okamura, strategist at Dresdner Kleinwort Benson.

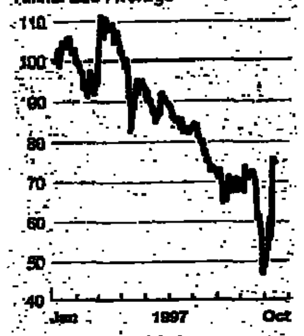
"This is one way of showing investors that it has confidence in its future and that the banks stand behind it. It is a slick and stylish move."

Hanwa plans to buy back the shares at less than Y300 between December 16 and January 16. It is seeking shareholder backing at a special meeting in December.

The largest buy-back to date, as a proportion of market capitalisation, was by Matsushita Electric Works, a manufacturer. It announced this year a Y50bn buy-back of its own stocks, or 6.5 per cent of the total. Last year Toyota, the carmaker, spent about Y100bn purchasing about 1.2 per cent of its shares.

Hanwa

Share price relative to the Nikkei 225 Average



Source: Datastream/ICV

New chief checks out Indian Hotels

Ratan Tata, who took control last month, aims to make the group the country's best chain

Indian Hotels, the country's biggest hotel group, faces sweeping changes under Ratan Tata, new chairman and head of India's powerful Tata family.

The restructuring could involve the sale of the group's hotels in the UK, US and Hong Kong and the scaling back of ambitious expansion plans at home.

Mr Tata last month seized control of the group, in which his family has a controlling stake, after Ajit Kerkar, the long-standing chairman and managing director, was forced to resign.

He has since appointed a new managing director and deputy managing director.

Speaking at Indian Hotels' annual meeting on Friday, Mr Tata said that 80 per cent of Indian Hotels' revenues came from five properties. Many other hotels were "generating little or no profit".

"They are a burden on those that are profitable," he said and added that the company, famous for its Taj hotels, had to upgrade and improve the marginal hotels and should aim to be the best hotel chain in India, not the biggest.

Mr Tata noted that the reputation of some of its hotels, notably the Taj Delhi, has slipped.

But the new chairman was most critical of Indian Hotels' expansion overseas, which includes hotels in London, New York and Hong Kong. "Our international strategy needs to be reviewed" he said. The company's hotels in the UK and US faced "a very competitive environment" in countries where "we do not have a brand image".

The new management team would "look hard at what we should be abroad . . . This would involve "restructuring".

Mr Tata chose executives from the Tata group to push through the changes. Krishna Kumar, the new managing director, comes from Tata Tea. Mr Tata denied that Indian Hotels "could only be run by someone with experience in hotels. What we need from a chief executive is leadership, professionalism and the ability to manage people", he said.

He added that Indian Hotels had been "given a great deal of leeway" but in future it would be bound to a "common code" with other Tata group companies.

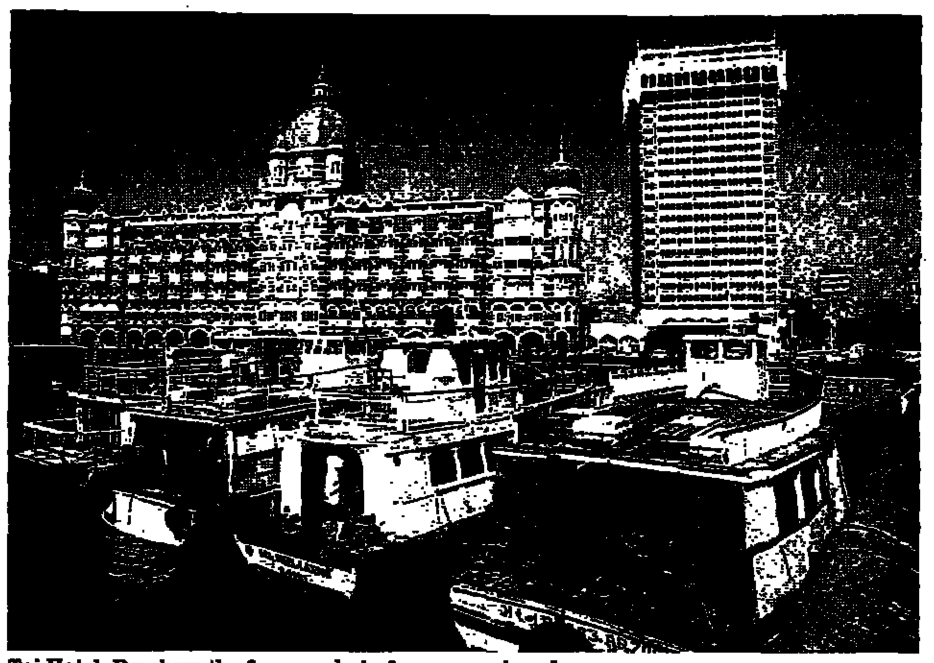
Mr Tata was criticised by supporters of Mr Kerkar at last week's annual meeting.

Some shareholders pointed out that Mr Kerkar had presided over a period of strong growth and suggested that there might be conflicts of interest between Indian Hotels and Tata Sons, Mr Tata's holding company.

The new management faces tough challenges in an industry suffering from low occupancy rates. Mr Tata admitted that India's hotels suffered from being "higher priced than their competitors in other Asian countries". He added that revenues were up 4 per cent in the first half, in spite of falling occupancy, because of tighter control of discounts. The second half was "expected to be better", provided there was a "visible improvement" in India's economy.

He said the company would continue to eye opportunities at ITDC, the state hotels group, in which it holds a stake, while the Tata group was considering plans for a Rps7,500m ($207m) hotel and convention centre in the Bombay suburbs.

Krishna Guha



Taj Hotel, Bombay: the famous chain faces sweeping changes Tony Andrews

Ratan Tata has hit back at allegations that Tata Tea, part of his family's corporate empire, provided medical assistance to terrorists in north-east India, Krishna Guha writes.

Mr Tata said that he was "fully satisfied" that Tata Tea "has done nothing wrong, illegal or anti-national".

He said the charges were intended to "damage the image of Tata Tea and Mr Krishna Kumar", managing director of Tata Tea.

Last week India's press published what were claimed to be excerpts of Mr Tata's telephone calls. He was apparently recorded trying to rally support from other industrialists for a common front against the claims. The alleged phone tapping is now the subject of a police investigation.

KYE to double production with China unit

By Peter Marsh

KYE, the world's third biggest supplier of computer mice, is aiming to leapfrog its US rivals by doubling production next year with a new factory in China.

The privately-held Taiwanese company is hoping to raise $60m through the issue of 20 per cent of its shares next month on the Taipei stock exchange, valuing the company at about $300m.

KYE this year expects to make 15m mice – devices for controlling personal computers – from two factories in Taiwan and two in China.

It is planning next year to open a third Chinese plant, doubling production to 30m – enough to edge it ahead of Logitech and Microsoft, the US companies at number one and two, respectively.

Global mouse production this year is estimated at about 80m.

KYE, founded in 1983, expects sales to reach $150m this year. About one-third of revenues come from mice, but it also makes telecommunications devices and digital scanners.

The company was started by Albert Chen and James Zwo, president and vice-president, respectively. They and their families own the majority of the shares.

While most mice are commodity products, selling for a few dollars, KYE has been a pioneer in the "high-tech" mice sector. These mice have three buttons, rather than the normal two.

It has also introduced mice capable of being linked to computers by infra-red radiation rather than by a wire.

Mr Zwo said KYE plans to treble in size by 2000 by stepping up sales, especially of electronic systems that can be added to computers to enable them to link to networks such as the internet.

The company employs 1,000 people – 400 in Taiwan and the rest in China.

Next year, 600 more staff will be taken on in the new plant in China – home of much of the world's mouse industry due to low wage costs.

ASIA-PACIFIC NEWS DIGEST

GPU acquires Australian grid

GPU, the US energy group, has acquired PowerNet Victoria, the electricity transmission grid of the Australian state of Victoria, for A$2.72bn (US$2bn). The sale marks the latest stage in the privatisation of Victoria's power assets, which have been auctioned over the past two years for a total of A$22.5bn.

New Jersey-based GPU agreed to pay A$2.55bn plus A$161m in licence fees. It beat the UK's National Grid with Itochu, the Japanese trading firm, which had been considered the leading contenders. Other bidders were Singapore Power with Macquarie Bank, of Australia, and Consolidated Natural Gas, of the US.

PowerNet owns and maintains Victoria's high-voltage power lines, which cover 227,600 sq km and are connected to the power grids in the neighbouring states of New South Wales and South Australia. David Brauer, GPU International vice-president, said it would add value to the business by pursuing wider opportunities involving areas such as telecommunications and related consulting activities.

Rates on the transmission network will be regulated by Victoria. After the southern and eastern Australian states form an open power market next year, power grid rates will be reviewed by the Australian Competition and Consumer Commission. *Reuters, Melbourne*

■ PAY-TV

Foxtel merger decision expected

The Australian Competition and Consumer Commission said yesterday it hoped to make a decision this week on the proposed merger between pay-television companies Australis Media and Foxtel, a joint venture between Telstra and News Corp.

The commission said no decision had been made on the proposed merger, which it has already blocked once and which is opposed by Optus Communications and its pay-TV arm Optus Vision. Optus is 49 per cent owned by Cable and Wireless, of the UK.

Analysts and brokers said they expected a rejection would ring the death-knell for Australis, although this had been priced into the shares for some time. Australis shares closed down two cents at A$0.18.

Australis said yesterday it had been asked by the commission to delay the issue of documents ahead of a November 5 shareholders' meeting to vote on the proposed merger with Foxtel. It added that it and Foxtel had received legal advice that the merger would not breach Australia's Trade Practices Act.

Australis said it had received correspondence from the anti-monopoly watchdog which detailed previous concerns about the effect of the merger on competition in the Australian pay-TV, telephony and broadband markets.

Australian media had speculated that the commission would announce it planned to block the merger. Australis said it, News Corp and Telstra had each been asked to provide information within seven days of any further steps towards the completion of the merger. *Reuters, Sydney*

■ BANKING

Sumitomo Trust cuts forecasts

Sumitomo Trust & Banking, one of the largest of Japan's seven trust banks, yesterday revised down its forecast for parent pre-tax profit for the six months to September 30, from Y30bn to about Y22bn ($183m).

The revision was caused by a Y90bn write-off in non-performing loans during the term – it had previously expected to write off Y75bn.

The bank also cut its forecast for parent net profit to about Y22bn, against a previous forecast of Y30bn. It said it had reported first-half securities valuation losses of Y73.61bn.

But Sumitomo Trust raised its forecast for revenue from Y500bn to Y555bn, because of increased revenue from selling securities. *AP-Dow Jones, Tokyo*

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Dresdner under the spotlight

Boardroom upheaval raises questions about the future of the German bank

Dresdner Bank, long the secretive and silent monolith of German banking, burst on to the public scene last week as it was beset by further boardroom upheaval.

The latest intrigue and resignations at Germany's second-biggest bank have raised fresh questions about its health and direction. They come as Dresdner is preparing for a change-over in chief executive and trying to build its position as a global company in investment banking.

The second top banker within a month resigned over allegations of tax evasion. Hans-Günther Adenauer, a board member for 11 years, asked to be relieved of his duties – under intense pressure from the rest of the board, it was whispered – after admitting to concealing personal income from tax authorities. "The board put him in a room with a gun and told him what to do with it," said one observer.

The intrigue deepened when Jürgen Sarrazin, the bank's quietly-spoken chief executive, announced he would no longer be standing for election to Dresdner's non-executive supervisory board when he steps down as the bank's top manager next May.

This was a shock, since it was assumed Mr Sarrazin would ascend to the chairmanship of the supervisory board. But it had also been a surprise when last month Dresdner annouced Mr Sarrazin would be ending his five-year tenure as chief executive next May, much earlier than expected. Some analysts speculated that Mr Sarrazin, not an adept public communicator, had been pushed out to make way for a more robust manager. Dresdner announced that Bernhard Walter, currently responsible for corporate and institutional business, would be his successor.

But perhaps the biggest bombshell was the resignation last month of Wolfgang Röller, head of Dresdner's supervisory board, a former chief executive and one of Germany's best-known and most influential bankers.

Mr Röller stepped down to answer allegations – which he denies – that he sought to evade taxes by sending funds abroad. He became the latest and most senior casualty of investigations at Dresdner since 1994 over claims that the bank advised clients to send funds to foreign centres, such as Switzerland and Luxembourg, to evade tax. Other banks have also been targeted by similar investigations.

What does such upheaval say about Dresdner's future? Ironically, most analysts have greeted the shake-up positively, viewing it as a necessary blood-letting to make way for a more vibrant, younger generation.

While there were doubts about the abilities of some senior board members, says Ian McEwan, European banking analyst at Lehman Brothers in London, "the next rung down are as good as you will find anywhere". Several observers enthuse about young rising stars such as Gerd Häusler (a former Bundesbank director who joined Dresdner only last year), Ernst-Moritz Lipp (responsible partly for preparations for European monetary union) and Hansgeorg Hofmann (responsible for investment banking).

Analysts are also encouraged by the early succession of Mr Walter, a tougher-talking manager than his predecessor. With his experience of corporate relations, he is likely to focus on rebuilding corporate business, an area where Dresdner has been losing ground to its German rivals.

"First, tax investigations are not only a problem for Dresdner. And as for the earnings development, it is in a good condition," says Dieter Hein, banking analyst at Commerzbank in Frankfurt. Dresdner reported a 23 per cent rise in operating profit in the first half of this year, after a 44 per cent increase to about DM2.8bn ($1.6bn) in 1996.

The point is that Dresdner still faces the same challenges it did before the management upheaval. Mr Walter, as the new chief executive, will need to raise the profitability of its retail banking operations. He must also address difficulties with Dresdner's direct banking operations, which are struggling to get off the ground.

But the biggest challenge is the expansion of investment banking and the successful integration of Kleinwort Benson, the UK investment bank it acquired in 1995.

To appease managers in both banks, Dresdner has chosen Frankfurt and London as the two global centres for its investment banking business, but such a disjointed arrangement is likely to prove unsatisfactory. Senior staff have already left – including Kleinwort chairman Simon Robertson and vice-chairman David Clementi.

The integration is also proving costly. "This is okay for now because the costs are offset by buoyant revenues from the bullish securities markets. But I am worried about the sustainability of those revenues," says Piers Brown, banking analyst at UBS in London.

But Dresdner's ambitions in investment banking remain high. In the summer it raised about DM1.6bn through a capital increase, with the explicit aim of using it to finance foreign expansion. Mr Sarrazin has said he is keeping a "sharp eye" out for a Wall Street investment bank. But it has so far revealed no plans, damping rumours linking Dresdner to Donaldson, Lufkin & Jenrette, the US investment bank.

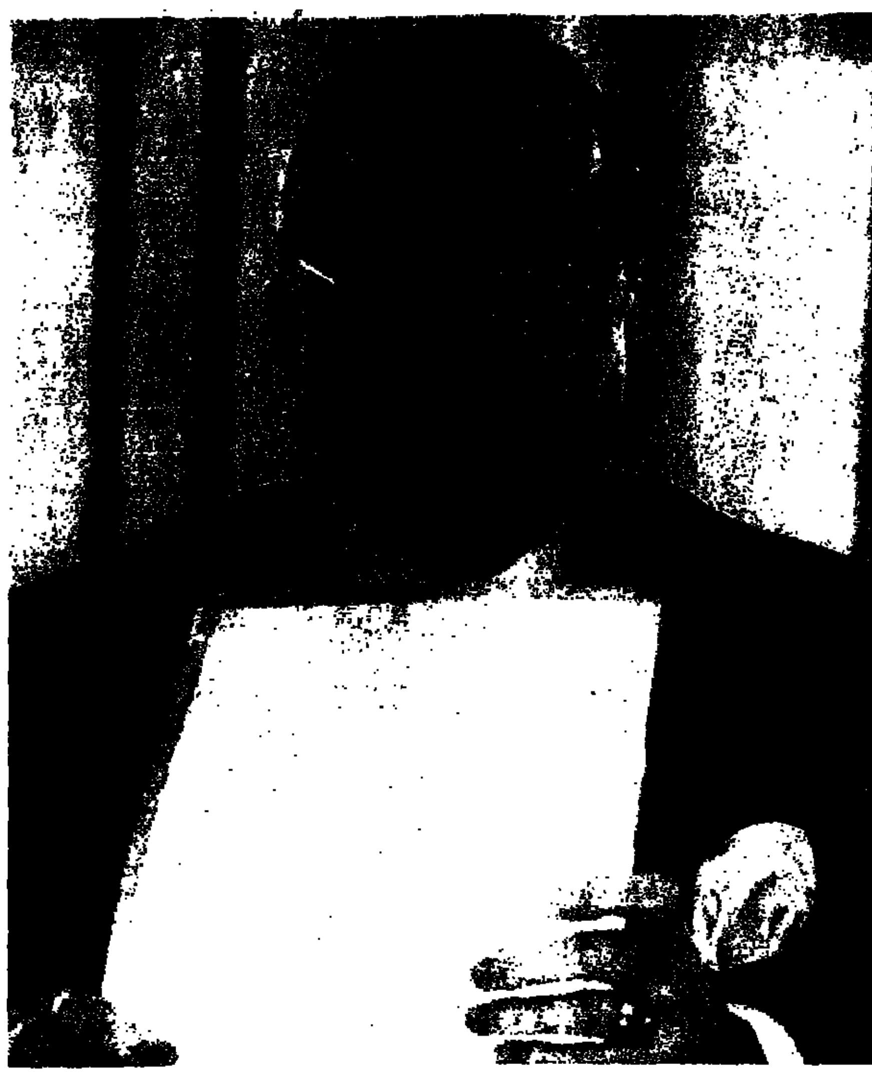
The long-standing criticism may still apply that Dresdner is the follower, never the leader in German banking – always acting too late to catch up with bigger rival Deutsche Bank.

Its difficulties in direct banking stem in part from its late entry into that market. It expanded heavily in investment banking several years after Deutsche had bought Morgan Grenfell of the UK. There is the fear now that consolidation in the US may be moving too fast for Dresdner to get a substantial foothold.

It may also be overtaken by events in Germany. Observers speculate that Allianz, the insurance group which owns almost one-quarter of Dresdner's shares, could soon swallow it up.

One lasting effect of the turbulence among Dresdner's top management, therefore, may be that the bank is now more vulnerable to the whims of its largest shareholder.

Graham Bowley



Jamie Han

Stepping down: Jürgen Sarrazin will not seek election to Dresdner's supervisory board

P&U to move base to US

By Daniel Green

Pharmacia & Upjohn, the troubled US-Swedish pharmaceuticals company, is to move its corporate headquarters from the UK to the US, less than two years after it said it would stay near London for five years.

The move will cost between $10m-$15m and will save $5m-$10m a year in operating costs.

This and other restructuring costs will be included in a special charge to the company's fourth-quarter results.

P&U has issued a series of profit warnings and charges since it was formed in late 1995, as it struggled to cope with cultural differences within the new company.

The headquarters move is the decision of Fred Hassan, chief executive brought in in May 1997 to turn the company round.

He said: "It's not a problem with Windsor or London, it's that we need to build a new culture and have to work from one centre. This will help us change our results, because in the US we're not getting our fair share in sales and earnings."

Mr Hassan said that the real pay-off for the move would be in improved management effectiveness.

The company will also be moving its North American pharmaceutical and marketing operation from Upjohn's headquarters in Kalamazoo, Michigan, to the new site.

This is likely to affect 10 per cent of the 6,000 workers at Kalamazoo, some of whom will lose their jobs as a result of what Mr Hassan calls "consolidating corporate functions in one centre". This move will be completed by the end of the second quarter of 1998, he said.

Windsor had been chosen as a compromise between the existing headquarters sites of Kalamazoo, Stockholm, Sweden, and Milan in Italy. Some 80 people were relocated to the site or hired locally.

The new location has not yet been decided, except that it is to be on the east coast in one of the mid-Atlantic states of New York, New Jersey and Pennsylvania, where most of the large US drugs companies are based.

Mr Hassan said the move did not mean that P&U was becoming a US company.

Hughes slips 4.7% to $240m

By Christopher Parkes in Los Angeles

Hughes Electronics' net income slipped 4.7 per cent to $240m during the third quarter in spite of improvements at the space and telecommunications divisions that will soon account for the bulk of its operations.

Earnings per share of 60 cents, against 63 cents last time, outstripped analysts' estimates as operating income from satellites and space-based services almost doubled to $115m: revenues rose 26 per cent to $1.24bn.

Delco, the car parts business, felt the pressure of the competitive global sourcing initiative of General Motors, Hughes' parent, and the division's operating profit slid from $166m to $96m.

Operating margins on components fell from 13 per cent to 8 per cent as the value of Delco parts installed in GM vehicles dropped from $900 to $816 a vehicle.

Delco is due shortly to be absorbed by GM's Delphi Automotive Systems in a wholesale restructuring which will also see defence operations sold to Raytheon.

Defence revenues rose 6.8 per cent to $1.63bn and profits slipped from $167m to $166m.

Michael Armstrong, chairman, who is tipped to take up the vacant chief executive's seat at AT&T, the US telecommunications group, said record space revenues and income resulted from subscriber growth at the DirecTV satellite television service and the merger with the PanAmSat satellite group.

At the end of the period, DirecTV had 2.9m US subscribers and 233,000 in Latin America. Operating profit margins rose to 9.2 per cent, compared with 6.2 per cent.

Group income for the first nine months, adjusted for one-time gains, fell 12.6 per cent to $699m, and earnings per share were 12.5 per cent lower at $1.75.

In a separate report yesterday, PanAmSat, which incorporates Hughes' former Galaxy operations, said revenues for the quarter slipped 7 per cent to $170m.

It launched two satellites during the period, doubling capacity serving Latin America, signed business and internet service agreements which increased revenues from these operations 22 per cent to $35m.

Travelers, J.P. Morgan and Donaldson, Lufkin & Jenrette report improved quarterly earnings

Strong markets lift US finance groups

By William Lewis and John Authers in New York

Three of the leading US financial services groups reported strong third-quarter earnings yesterday on the back of buoyant markets, the continued strong sales of retail investment products, and intense investment banking activity.

Travelers announced sharply improved results, thanks mainly to continued strong fund management performance.

Total operating earnings for the quarter to the end of September were $740.8m, up 29 per cent on the $576.1m recorded in the equivalent quarter of 1996, while operating earnings per share increased 30 per cent to $1.12 – far in excess of research group First Call's consensus estimate of $1.01.

Smith Barney – Travelers' investment banking arm which will be merged with Salomon next year to form Salomon Smith Barney – increased operating earnings by 45 per cent, from $208.7m to $302.5m.

Its return on equity was 39.3 per cent, while pre-tax profit margins increased to 26.9 per cent, up from 22.7 per cent in the equivalent period of 1996.

The results were helped by the strong equity market and buoyant retail demand for savings products. Asset management fees rose 26 per cent to $433m.

However, the company made plain it had continued its aggressive cost containment strategy. Non-compensation costs dipped from 21.3 per cent to 18.5 per cent of net revenues, while compensation fell from 56.0 per cent to 54.6 per cent of revenues.

J.P. Morgan reported net income of $396m for the third quarter of the year, up 43 per cent on the third quarter of 1996 and a 5.8 per cent improvement on the second quarter of this year.

Earnings per share were $1.96 – marginally below analysts' expectations – compared with $1.32 in the third quarter of last year, and $1.85 in the second quarter of this year.

Donaldson, Lufkin & Jenrette, the investment bank majority-owned by the Equitable insurance group, reported net income of $120.3m, the equivalent of $1.80 per share on a primary basis, for the third quarter. The performance represented a record for the bank.

DLJ's earnings were substantially above analysts' expectations of $1.26 per share for the quarter and 109 per cent higher than the comparable quarter last year.

The shares of all three companies increased in morning trading on Wall Street. J.P. Morgan rose $2 to $120¼; DLJ $1¾ to $77¼; and Travelers $$\frac{13}{16}$ to $75\frac{5}{16}$.

Both J.P. Morgan and DLJ cited strong performances in investment banking as one of the highlights of their third quarter performances.

DLJ said that fee income had increased by 68 per cent to $209.7m, mainly as a result of takeover advisory work and working as a placement agent for private equity funds.

Overall, J.P. Morgan's revenues from advisory services and debt and equity underwriting increased by 74 per cent to $328m, "reflecting record levels of investment banking activity," the bank said.

Netcom On-Line loses independence to ICG

By Nicholas Denton in San Francisco

Netcom On-Line Communication Services, one of the few remaining significant independent internet service providers in a market increasingly dominated by telecommunications groups, is to be taken over.

The internet pioneer said yesterday that it is to merge with ICG Communications of Colorado, one of the local exchange carriers which compete with the established regional Bell operating companies such as US West. The deal is valued at $285m.

Netcom, in 1994, was the first internet company to mount an initial public offering. It was also the first ISP to offer unlimited access at cut-price monthly rates.

It is the largest ISP in California and has 550,000 customers worldwide. Its acquisition is the fourth large move to consolidate the internet access market in the last 18 months.

The move follows the absorption of UUNet Technologies by WorldCom for $2bn, local carrier GTE's $616m acquisition of BBN, a pioneering ISP, and September's proposed three-way deal involving WorldCom, America Online and CompuServe.

Netcom's decision underlines the pressure on independent ISPs. The 4,500-strong sector is predicted by Gartner Group, the market researcher, to decline in number by 90 per cent within five years.

Of the early pioneers of the internet access market, only PSINet remains independent. ISPs which have emerged more recently, such as MindSpring Enterprises and Verio, have grown largely through acquisition.

When the internet was primarily a computer network for academics, the independent ISPs were among the first to provide dial-up access to the general public over ordinary telephone lines.

However, telecoms giants such as AT&T in the US and Deutsche Telekom in Germany entered the market after recognising that much recent growth in telecoms traffic was due to the internet.

Analysts believe telecoms carriers will dominate the internet access market because they can bundle different services in one package and offer the convenience of one consolidated communications bill.

Larger carriers such as WorldCom, which can run consumer traffic in the evening over data networks used by corporations during the day, also enjoy economies of scale.

AMERICAS NEWS DIGEST

ITT in office shake-up plan

ITT, the US hotels and casinos company defending itself against an unsolicited $8.3bn offer by the rival Hilton Hotels group, yesterday said it planned to save $55m a year by consolidating its existing New York headquarters with the head offices of its Sheraton hotel operations in Boston and its Caesars gambling operations in Las Vegas.

The new headquarters would employ 80 people, it said, down from 166 now and 323 in April, and would be located in Sheraton's Boston offices, Sheraton's New York hotel complex, or new offices in the outer New York suburbs of Westchester or Fairfield County.

The move increased expectations that ITT was about to offer shareholders an improvement on its plan to split the company into three and buy back about 26 per cent of its stock at $70 a share – the same price being offered by Hilton. Mr Rand Araskog, ITT chairman and chief executive, said: "We are committed to serving the best interests of our shareholders, and we are studying the best way to return this incremental value to them."

At the end of last month, a Nevada court ruled that ITT could not press ahead with its break-up plan without a shareholder vote. ITT subsequently chose November 12 as the date for the vote. *Richard Tomkins, New York*

■ BRAZIL

Utility sale set to raise R$323m

The Brazilian state of Mato Grosso has added to the country's increasingly crowded privatisation agenda by announcing a minimum price for the sale of its electricity utility, Cemat. The state plans to sell 87 per cent of the company on November 27 for a minimum of R$323.3m (US$295m).

It brings to six the number of state-controlled electricity distributors due to be sold this quarter. Cemat joins three other small utilities – Enersul, Energipe and Cosern, controlled respectively by the governments of Mato Grosso do Sul, Sergipe and Rio Grande do Norte – slated for auction by mid-December.

They will be dwarfed by the sale of two distributors in the state of Rio Grande do Sul for a combined minimum of R$1.68bn on October 21, and by that of CPFL, the distributor for the interior of São Paulo state, for a minimum price of R$2.1bn on November 5.

The Brazilian government expects the sale of the country's federal and state controlled electricity industry to raise between R$35bn and R$40bn by the end of next year. *Jonathan Wheatley, São Paulo*

■ MEXICO

Vitro sells Cydsa stake

Vitro, the Mexican glass maker, has announced the sale of its 49.99 per cent shareholding in Cydsa, a chemicals, fibres and textiles producer, to members of the González-Sada family, who are also important shareholders in Vitro.

The sale agreement, which is expected to raise between $230m and $260m, was welcomed by equity analysts, who anticipate Vitro will use the proceeds to retire expensive debt and build up a cash reserve to expand into new businesses next year.

Cydsa, which was not consolidated within the Vitro group of companies, was not an important source of profits for the group. The publicly-traded company has one of the worst margins in the petrochemicals business and suffers from management problems.

The González-Sada family will pay for Vitro's stake in Cydsa with their own Vitro shares, which amount to about 12 per cent of the $1.9bn conglomerate. J.P. Morgan, the US investment bank, is understood to be helping Vitro find a strategic partner, or many institutional investors, willing to buy the González-Sada shareholding. *Leslie Crawford, Mexico City*

■ VENEZUELA

Tariff review governs sell-off price

Venezuela's Margarita Island electricity complex, which is to be privatised in mid-December, is expected to reap between $80m and $120m, a senior government official said. The final price would depend on the tariffs, which are currently being reviewed by the ministry of energy and mines, the official said. A higher tariff means the operator will be able to recover more quickly investments into expansion and modernisation.

In order to meet future demand the winning bidder will have to construct either a gas pipeline or a power transmission line, each estimated to cost $300m. A gas pipeline is currently the favoured alternative, the source said, because gas has multiple uses on the island.

Twelve companies have shown interest in pre-registering, including Chile's Endesa, Chilquinta and Chilectro, Japan's Mitsubishi, Gaz de France, General Electric, of the US, Venezuela's Electricidad de Caracas, as well as a Brazilian company. *Raymond Colitt, Caracas*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Polish drugs sector opens up to outsiders

By Kevin Done, East Europe Correspondent

Pliva, the Croatian drugs group, and ICN Pharmaceuticals, of the US, yesterday announced they would take majority stakes in two of Poland's leading pharmaceuticals companies.

The sales represent the first in the country's drug sector to foreign strategic investors, and strengthen the positions of Pliva and ICN as two of the leading regional forces in the central and east European pharmaceuticals industry.

Pliva will pay $85.7m for a 60 per cent stake in Krakowskie Zaklady Farmaceutyczne Polfa, in one of the biggest intra-regional deals in central Europe.

The Croatian group, the first central European industrial company to gain a full listing on the London Stock Exchange, will inject a further $38m in new equity into Polfa Krakow within 12 months, raising its stake to 81.5 per cent. It is committed to investing $73.5m during the next five years to improve and expand production facilities.

A further 10 per cent stake in Polfa Krakow will be bought for $14.2m by Handlowy Investments, the investment arm of Bank Handlowy, the recently privatised Polish bank, which has formed a consortium with Pliva. The remaining 30 per cent will be held by the Polish government. Of this, up to half could be distributed to employees.

Polfa Krakow is Poland's third-largest pharmaceuticals producer with a 3.4 per cent share of the highly fragmented market. More than 90 per cent of its sales come from generic drugs, with 15 per cent coming from exports. It reported net profit of $9.2m last year on sales of $65.6m.

ICN Pharmaceuticals is paying $33.7m for an 80 per cent stake in the smaller producer, Przedsiebiorstwo Farmaceutyczne Polfa w Rzeszowie, located like Polfa Krakow in southern Poland.

Bill MacDonald, ICN executive vice-president for strategic planning, said the group was committed to a five-year capital investment programme at Polfa Rzeszow totalling $33m. The Polish group made a net profit of $8m last year on a turnover of $40m.

Polfa Rzeszow is the seventh company acquired in central and east Europe by ICN, which is headed by Milan Panič, the Belgrade-born Californian millionaire, who served as prime minister of Yugoslavia in 1992.

It already has production operations in Yugoslavia, Russia and Hungary, and sales in the region last year totalled $355.4m, accounting for 58 per cent of total group turnover of $614m.

Pliva was advised by Union Bank of Switzerland and ICN by Deutsche Morgan Grenfell. UBS is committed to providing up to $50m of acquisition financing to Pliva.

Both Pliva and ICN are seeking to build a regional presence in the central and east European pharmaceuticals industry.

Zeljko Covič, Pliva chief executive, said the acquisition of Polfa Krakow would give it a manufacturing base inside the Central European Free Trade Agreement (CEFTA) region, and later within the European Union, where Poland is one of the front-runners for early membership. Pliva would seek further acquisitions through future privatisations in the region, he said.

The group's sales in central and east Europe, including its domestic market in Croatia, totalled 903.2m kunas ($150m) in the first half of 1997 on group turnover of 1.4bn kunas.

Mr Covič said central and east European markets were Pliva's main target for future growth, in particular for its own big-selling antibiotic azithromycin, which it sells in the region under the brandname Sumamed. Its regional sales force is being developed rapidly, chiefly in Russia, the Czech Republic, Poland and Slovakia.

Elsewhere in the world, Pliva has licensed azithromycin to Pfizer of the US, which sells it under the name of Zithromax.

Austrian bank in Polish move

By Christopher Bobinski in Warsaw

Creditanstalt has taken a 13 per cent stake in Poland's Powszechny Bank Kredytowy in the first stage of a campaign by the Austrian bank to build its influence in central Europe's largest banking market.

The move follows its failure to gain control of the Polish Investment Bank, which went to the Polish-controlled Kredyt Bank.

Creditanstalt, which paid $59m for its PBK stake, has had a corporate banking operation in Poland since 1991. It now has eight branches and reported a net profit of 9.1m zlotys last year on a balance sheet worth 1.2bn zlotys ($354m).

The Austrian bank is expected to try to increase its stake by buying shares from institutional investors, who were allocated 10.5 per cent of the equity under the terms of a public offer. The PBK offer also left the Warta insurance company and the Kredyt Bank with 13 per cent each, and PIB with a symbolic 1 per cent.

The three local institutions are the remaining members of a group which has sought to win control of the bank.

HSBC advised the government on the sale.

Clear for take-off: Jürgen Weber, Lufthansa chief executive, left, and Matthias Wissmann, German transport minister Reuters

State ends link with Lufthansa

Shares in Lufthansa, the German airline, last night closed down 15 pfennigs, on the first day after the government priced its remaining stake in the carrier, writes Our Financial Staff.

At the close of electronic trading in Frankfurt, the shares stood at at DM33.40, down on Friday's close but slightly ahead of the price of the remaining tranche in the national flag-carrier.

Dresdner Kleinwort Benson and SBC Warburg Dillon Read, the global co-ordinators handling the sale of the German government's remaining shares in Lufthansa, on Sunday set an issue price of DM33.30 for the remaining 143m shares – or 37.5 per cent of the total equity – in the airline.

"The share price was in line with expectations. After the latest consolidation on the stock market and in the Lufthansa share price, the price is not unattractive," said an analyst at a private German bank.

"The price should not be a surprise and should be pretty neutral for the market," he said.

The issue was more than two times subscribed, and retail investors, who received slightly more than 50 per cent of the new shares, were given a discount of DM1 a share.

Jürgen Weber, Lufthansa chief executive, joined Matthias Wissmann, transport minister, on the floor of the Frankfurt stock exchange yesterday to launch trade in the new shares.

The offering was the largest in Germany since last year's partial privatisation of Deutsche Telekom.

Lufthansa's close came against a rise in the IBIS Dax index, to 4,225.27 from 4,164.82.

Privatised Slovenian groups face upheaval

By Jack Grimston in Ljubljana

Upheavals at two leading Slovenian companies have highlighted the problems of outside shareholders introducing western-style corporate governance to a formerly communist economy.

Zivko Pregl, chief executive of Mercator, a supermarket chain and the country's largest private employer with 9,000 workers, was fired last week by the company's supervisory board.

Mr Pregl, deputy prime minister in the former Yugoslavia before Slovenia's 1991 independence, was accused of being incapable of running the company.

Vojmir Urlep, chief executive of Lek, one of central Europe's leading pharmaceutical companies with sales last year of about $280m, also resigned last week, for "personal reasons". He will remain part of the management team.

Mr Pregl lost his job in July, but was quickly reinstated. He described the second firing as "close to sadism".

Miran Goslar, Mercator supervisory board chairman, launched a ferocious attack on Mr Pregl's record, including accusing him of not producing enough profit, antagonising employees and relying too much on foreign audiences.

The antagonism was caused by a restructuring plan, led by Mr Pregl, to centralise management, reduce Mercator's workforce, modernise the retail chain and prepare non-core businesses for disposal.

Mr Pregl considered the plan vital to the company's survival amid the gradual influx of foreign competition into Slovenia's retail sector.

The upheavals could endanger a DM140m ($80m) loan by the European Bank for Reconstruction and Development and a syndicate of five commercial banks.

While about DM17m has already been disbursed, the EBRD will withhold the second tranche of up to DM12m until it is confident that a good management team is in place and that restructuring goes ahead.

Institutional shareholders have called an extraordinary meeting for October 28.

"The strategy remains the same, but the instruments could be different," said Zoran Jankovič, the new Mercator chief executive, formerly a member of the supervisory board.

Both Lek and Mercator are owned by a mixture of employees, members of the public and Slovenian and foreign investment funds following the country's protracted privatisation.

But institutional shareholders have found it difficult to make themselves heard on either company's supervisory board.

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Spain restricts Endesa sell-off to 25%

By Tom Burns in Madrid

The Spanish government yesterday scaled back the sale of Endesa, the power group, over concerns about the volatile equity market and a lukewarm response from international institutions.

The market disposal of the main domestic electricity generator and distributor, which will be completed next Monday, will, however, still be worth Pta800bn ($5.4bn), more than double the largest amount ever realised from a disposal on Madrid's Bolsa.

Sepi, the government agency that controls 67 per cent of Endesa's stock, had previously received approval to sell a minimum of 25 per cent of the power group's equity and a maximum of 35 per cent. However, Pedro Ferreras, Sepi chairman, said last night the agency and its banks had agreed to waive the option of increasing the offer, and to restrict it to 25 per cent.

The decision surprised some market analysts, given the strong demand for Endesa stock among small domestic savers who have been offered the bulk of the disposal. Demand among retail investors for the power group was said to be 10 times the amount offered.

Prudence, however, dictated reining in the offer to its set minimum to ensure support for the share price after the partial privatisation. "Our objective is not to realise the maximum earnings but to ensure that there will be no fluctuations in the after-market," Mr Ferreras said.

It is understood that the banks co-ordinating the offer – Merrill Lynch of the US, and the domestic banks Argentaria and Santander – had noted a less than enthusiastic response from international institutions.

Mr Ferreras said demand from institutions already represented 100 per cent of the total they had been offered. However, in an implicit admission that demand was unlikely to increase before the offer closed at the end of this week, he said the greenshoe, or over-allotment tranche, which represents 2.5 per cent of Endesa's equity, was likely to be allocated to small domestic investors.

The advisory banks are believed to have feared a strong flowback from retail investors if the disposal had been increased to its maximum 35 per cent.

The disposal, including the greenshoe allotment, will reduce Sepi's stake in Endesa to 39.5 per cent. A further 5 per cent of the agency's equity is earmarked for sale to shareholders of Chile's Enersis power group.

Mr Ferreras said he expected the full privatisation of Endesa to take place next year.

Generali makes its move with hostile AGF bid

The ambitious FFr55bn ($9.35bn) hostile bid launched yesterday by Generali for AGF says much about the upheaval in both French and Italian-style capitalism.

The merger of the French insurers Axa and UAP, announced late last year against the backdrop of European monetary union, created huge pressures for consolidation in the sector.

The imminent sale of the state-owned GAN and of Athéna, which is controlled by the Worms group, and the speculation in the shares of the privatised AGF, all mean that time is running out for rivals interested in entering the French market in force.

In Italy, Generali has been streamlining its Byzantine structure of businesses, including its extensive French interests, as well as becoming more open to the outside world. It hosted its first meeting for financial analysts last July.

Generali had long been seen as a potential consolidator in the European insurance industry, but until yesterday had only made relatively timid acquisition forays.

After being outmanoeuvred by Axa, it sold its 10.5 per cent stake in the French insurer last year, netting about $1bn to add to its cash pile. It was also thwarted last year in its bid for Creditanstalt, of Austria.

What moves it had made were relatively minor compared with the overall size of the group. These included the acquisition of Prime from Fiat in Italy and Migdal in Israel.

Since Antoine Bernheim, a senior partner with Lazard Frères, the Paris-based investment bank, became Generali chairman two years ago, the markets have been waiting for a significant strategic move.

However, the insurer appeared reluctant to launch a blockbuster bid, which was regarded by the markets as curious in view of Mr Bernheim's reputation as a dealmaker.

Mr Bernheim was widely expected to target France, not just because he was born there but because the country has long been Generali's largest market outside Italy – it ranks fifth in the French non-life market and 10th in life business.

The group has also been a traditional member of Italy's *salotto buono*, or "fine drawing room", of private finance, and yesterday's bid was not regarded as hostile to the Ifil holding group's interests in Worms, the financial and industrial holding company for which Ifil and AGF launched a friendly bid last week.

Generali, which is the fourth largest shareholder of Fiat, the carmaker controlled by the Agnelli family, is above all interested in the Worms insurance interests and AGF.

Ifil, in contrast, has emphasised it wants to strengthen its ties with the Worms industrial operations.

This year, Ifil indicated it would favour the sale by Worms of Athéna to take advantage of the high premiums insurance companies were fetching.

Ifil and Generali also invested in stakes in the new stable shareholding core of Telecom Italia, the Italian telecommunications group to be floated this month.

Generali is further intricately linked to the so-called Italian "northern business galaxy". Apart from its stake in Fiat, it owns stakes in Banca Commerciale Italiana, the Gemina holding company, Carlo De Benedetti's Cofide holding, and Pirelli, among others.

It has also been a traditional ally of Mediobanca, the influential Milan merchant bank which controls about 13 per cent of Generali, and of Lazard Frères, which owns about 5 per cent of the Italian insurer.

Apart from his senior roles at Generali and Lazard Frères, Mr Bernheim is also deputy chairman of Mediobanca.

The question now is whether Generali – or the "Lion of Trieste", as it is commonly known – will be able to charm AGF into compliance and see off the defences that the French group has long discussed in response to rumours about a hostile bid.

The markets have been waiting for Antoine Bernheim to move

Allianz, the German financial group which – like AGF – owns a stake in AMB, the German insurer, is among possible "white knights" that could help AGF launch an alternative friendly offer.

But given the ambitious financial targets that it has set itself – a 10 per cent return on equity this year rising to 14 per cent in 2000 – Generali is not likely to give up easily.

Paul Betts and Andrew Jack

Nordbanken chief hails link with Finland's Merita as an 'ideal marriage'

Merged bank aims for Nordic dominance

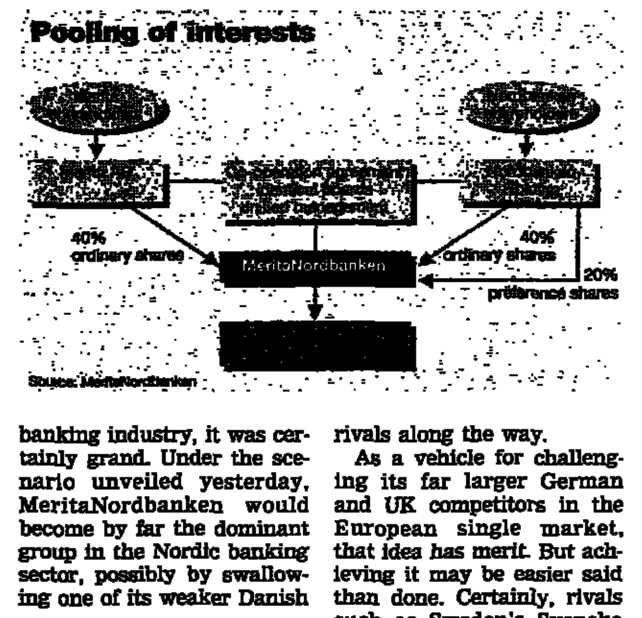
By Tim Burt in Stockholm

Hans Dalborg, president of Nordbanken, yesterday hailed the proposed SKr80bn ($10.6bn) merger of Sweden's fourth largest bank with Merita, Finland's leading lender, as the creation of a "mean team" in Nordic banking.

By bringing together the two retail banks, Mr Dalborg said the enlarged group could look forward to a 15 per cent return on equity by aggressively cutting costs and exploiting synergies in their banking products.

Announcing the latest merger in the region's financial services industry, he hinted that MeritaNordbanken – while late to the consolidation frenzy sweeping the sector – could yet overtake rivals by forming an alliance of three or four Scandinavian banks.

Sitting alongside Merita chief executive Vesa Vainio yesterday, Mr Dalborg suggested that the Swedish-Finnish banking axis might just be the beginning of a new force in northern European banking – one which would boast market dominance around the Baltic Sea in retail and corporate lending, pensions, insurance and equity trading.



"MeritaNordbanken will thereby become an attractive partner for additional financial activities and will also have the capacity to make acquisitions in the Nordic countries," he added.

As a vision for the region's banking industry, it was certainly grand. Under the scenario unveiled yesterday, MeritaNordbanken would become by far the dominant group in the Nordic banking sector, possibly by swallowing one of its weaker Danish rivals along the way.

As a vehicle for challenging its far larger German and UK competitors in the European single market, that idea has merit. But achieving it may be easier said than done. Certainly, rivals such as Sweden's Svenska Handelsbanken and Skandinaviska Enskilda Banken will not sit by while MeritaNordbanken tries to eat into their market share.

Such banks have already embarked on consolidation to protect their core businesses and expand their services into areas such as insurance. SE-Banken, for example, earlier this month announced a SKr16.8bn merger with insurer Trygg-Hansa, while Svenska Handelsbanken has acquired mortgage lender Stadshypotek. That trend has also seen the merger this year of Swedbank and Föreningsbanken, while last week the Finnish government announced plans to merge Postipankki and Finnish Export Credit into a new financial group.

So it remains uncertain unclear how the enlarged MeritaNordbanken will become more than just that, a larger lender in an increasingly competitive market. While there are clearly opportunities for cross-selling – notably Merita's of life products through Nordbanken's Swedish branch network, and the latter's mutual funds operations in Finland – but that in itself will not make the group a truly pan-European lending group.

"People will be disappointed by this deal," said Peter Thorne, European banking analyst at Paribas in London. "It looks defensive and given the cultural difference between the two banks, it is not easy to see how it would be successful."

Mr Dalborg and Mr Vainio, who will initially become chief executive and chairman respectively of the new bank, reject that claim. They point out that the merger will realise cost and revenue synergies of up to SKr970m, while promising a return on equity of at least 15 per cent over the economic cycle.

That prospect won applause yesterday from some industry analysts in Stockholm, who calculated that the new bank's "economic value added" – net interest plus other revenues, minus depreciation of capital – at SKr18.9bn. "Its nearest competitor will have an EVA of less than SKr12bn, so the growth prospects are very good indeed," said Anders Grufman, of management consultants Grufman Reje.

But other analysts were more sceptical, arguing Nordbanken would have done better to consummate the merger it explored earlier this year with SE-Banken.

Given that SE-Banken has found a partner elsewhere, Nordbanken may have had little choice in seeking an alliance with Merita, itself the product of a consolidation in 1995 involving Finland's two largest banking institutions – Kansallis-Osake-Pankki and Unitas. That left Merita with few prospects but to seek an overseas alliance.

Nevertheless, the two banks yesterday described their alliance as an "ideal marriage" that could foster a new Nordic banking family. "We want to form the first cross-border Nordic bank with a presence in every market in the region," said Mr Dalborg. "This is just the start."

Reed shares surge on merger news

By John Gapper in London and Gordon Cramb in Amsterdam

Shares in Reed International, the UK holding company of Reed Elsevier, rose 15 per cent to close 97p higher at 629p last night after the company's valuation was raised by the terms of the merger with Wolters Kluwer.

The rise in Reed's share price, compared with a 16 per cent rise in Elsevier's from Fl 28.4 to Fl 33.1 ($16.80), was caused partly by Reed's share of the new operating companies being calculated on the basis of its share of earnings.

Reed has been trading at a discount of about 8 per cent to Elsevier on differences in taxation and valuation. Reed would have had 34.6 per cent of the business, rather than 38.3 per cent, if the split had reflected this valuation.

Nigel Stapleton, Reed Elsevier co-chairman, said that it intended to keep a dual holding company structure in order to maintain taxation benefits. However, the holding companies might in time merge their operating companies.

Shareholders in Wolters Kluwer will be offered 7.85 shares in the new Dutch company for each one they own. Shareholders of Elsevier will own 34.2 per cent and Wolters 27.5 per cent of the operating companies in the new structure.

The deal means that the company's geographic centre moves towards the Netherlands. Although there will be nominally two head offices, the principal of these will be in Amsterdam – with "one of substance" being located in London.

Mr Stapleton, who will become deputy chief executive of the two operating companies in the merger, said Reed has "given up ultimate control" in the 1993 merger with Elsevier, and this was a good deal for each set of shareholders.

Anti-takeover measures that form part of the constitution of Wolters are to disappear on completion of the merger next year. The companies said they would adhere to principles of good corporate governance in each market.

The companies expect to gain merger savings of about £50m ($81m) over three years, with the workforce reducing by about 1,500 people, from a total of 42,000. Most of these benefits are to come from eliminating administrative overlaps.

Robert Pieterse, a director of Wolters Kluwer, who is to join the executive board, said that the cost savings were "small potatoes" compared with the potential revenue benefits from combination.

He said the most obvious example was in the US, where the CCH tax law publishing arm of Wolters Kluwer could gain from distributing data via Reed Elsevier's well-established Lexis-Nexis online information service.

Mr Pieterse said Wolters Kluwer had not been disturbed by the discovery of irregularities in Reed Travel, which is a part of Reed International. He said the company was satisfied that it would be thoroughly investigated and rectified.

Mr Stapleton said Reed Elsevier had already found that its scale gave it advantages in moving from paper to distributing information online. It could negotiate favourable deals with large software companies such as Microsoft.

Cornelis Brakel of Wolters Kluwer will be chief executive of the two operating companies, while Herman Bruggink, who has been co-chairman of Reed Elsevier with Mr Stapleton, will be deputy chief executive along with Mr Stapleton.

Mark Armour, chief financial officer of Reed, will take the same role in the merged companies. The executive boards will also include Caspar van Kempen, John Mellon, Mr Pieterse, Herman Spruijt, Paul Velk and Peter van Wel.

Reed is being advised by SBC Warburg Dillon Read, while Elsevier is advised by ABN Amro Hoare Govett, and Wolters Kluwer by Lazard Brothers & Co.

EUROPEAN NEWS DIGEST

Legal dispute over Publicis

The youngest daughter of the founder of Publicis, the quoted French advertising agency, said yesterday she had launched legal action to break up the family holding company which controls 38 per cent of the shares. Michèle Bleustein-Blanchet has begun a case in the Tribunal du Grand Instance seeking to dissolve Somarel, which she accuses of breaching numerous articles in French company law. Her action was triggered by the refusal of her sister, Elisabeth Badinter, who last year became chairwoman of the supervisory board of Publicis, to permit her to sell her shares in Somarel on the terms she chose. The litigation could push Publicis into restructuring its shareholding base, although Maurice Levy, chief executive, yesterday stressed that the group had no intention of relinquishing family control. *Andrew Jack, Paris*

■ MOTOR INDUSTRY

VW recalls 835,000 Audis

Volkswagen, the German carmaker, yesterday announced it was recalling 835,000 of its luxury Audi models, prompting a decline in its share price. VW shares fell DM11 to about DM1,200 by the end of IBIS electronic trading, after the carmaker said it was recalling models to correct a fault which could cause the cars' airbags to be accidentally inflated. Analysts said investors were concerned by the potential cost to the carmaker and by any possible damage to Audi's reputation. The move affects Audi's 80, A4, A6 and A8 models manufactured in 1995 and 1996. *Graham Bowley, Frankfurt*

■ ENGINEERING

Acquisition lifts Partek

The acquisition of heavy machinery group Sisu was behind a 48 per cent rise in sales, to FM5.96bn ($1.13bn), at Partek, the Finnish engineering and building products group for the eight months to August. Profit after financials items was FM284m ($54m) against FM81m. However, net profit declined from FM511m to FM231m, which Partek attributed to a heavier tax bill and much smaller extraordinary income. The units resulting from the acquisition of Sisu had been consolidated since April 30, Partek said. It expected its full-year performance to show an improvement on 1996, even after discounting non-recurring income relating to the group's restructuring. Orders received by the core engineering businesses during the period rose 13 per cent, with order stocks 12 per cent higher than a year earlier. *Agencies, Helsinki*

■ EGYPT

Miraco shares in demand

Organisers are expecting heavy oversubscription for the sale of 20 per cent of Egypt's first mainly foreign-owned company to be floated on the Cairo Stock Exchange. Shares in Miraco, Egypt's leading manufacturer of air conditioners and a 51 per cent-owned subsidiary of the US Carrier Corporation, are expected to be sold mainly to institutional investors before the end of this month.

The share offer will alter Miraco's ownership structure, with the 15.3 per cent owned by the Barakat family, which manages the company, rising by 0.1 per cent, and Carrier's share increasing to 56 per cent. Three institutional investors will divest their stakes, leaving 20.1 per cent for sale by sole offering manager EFG-Hermes. "Earnings growth of 35 per cent is expected this year, and it's the sole producer of air conditioning equipment under the Carrier name in Africa. They should also be achieving market penetration of 70 per cent," said Hassan Heikal of EFG-Hermes. *Mark Huband, Cairo*

■ CREDIT SUISSE

Chief risk officer leaves

Credit Suisse Group is seeking a new chief risk officer. Walter Knabenhans, 47, who took up the newly created post at the start of 1997, is joining Julius Baer, Switzerland's biggest family-controlled private bank, as head of trading in February 1998. Mr Knabenhans, a former chief operating officer of Credit Suisse Financial Products in London, is the latest senior executive to quit Credit Suisse since the group announced a shake-up of its top management team last year.

Josef Ackermann, chief executive of the Swiss banking operation, left after he was passed over for the group chief executive's job. Others to leave include Rudolf Hug, Credit Suisse's former head of international banking, and Hans Geiger, former head of logistics.

Mr Knabenhans was regarded as one of the rising stars at Credit Suisse and is leaving a new job that Credit Suisse had found hard to fill. He has been appointed deputy president, trading, at Julius Baer Holding and will succeed Jürgen Lüthi, 56, who is moving up to be a director of the holding company. Meanwhile, Raymond Baer, 38, head of private banking, has also been appointed a deputy president of Julius Baer Holding. *William Hall, Zurich*

■ TELECOMMUNICATIONS

O.Tel.o tests access technology

O.Tel.o, the joint venture between German utilities Veba and RWE, said it was testing a technology that connects its telephone network to corporate customers and sidesteps connection to the Deutsche Telekom fixed network. Until now, competitors have had to pay for access to end-users because of Telekom's monopoly on so-called "last-mile" connections. O.Tel.o will use a system enabling it to connect customers to its own fixed network via a mobile network. *AP-DJ, Bonn*

COMPANIES AND FINANCE: UK

DLJ considers offer for unwanted sections of BZW business

By William Lewis in New York and George Graham in London

Donaldson, Lufkin & Jenrette, the US investment bank, is considering an offer for the parts of BZW put up for sale by Barclays Bank.

DLJ, majority owned by the Equitable insurance group, is routinely rumoured as a takeover target but John Chalsty, its South African-born chairman, is keen to expand internationally.

It recently agreed to buy London Global Securities, the securities lending company, and earlier this year acquired Phoenix Securities, the mergers and acquisitions boutique.

DLJ yesterday refused to comment but investment banking figures confirmed it was one of several banks to have formally signalled potential interest in parts of BZW.

London investment bankers said DLJ would have been a likely candidate for a takeover by BZW, if Barclays had decided it could justify investment to build up its equities and corporate finance businesses.

"The alternative was DLJ or Smith Barney," said one senior London corporate financier. Smith Barney, part of the Travelers Group, is now merging with Salomon Brothers, the Wall Street investment bank.

BZW's biggest weakness remains the US, and most BZW staff would now favour a US buyer which could bring the ability to distribute securities in North America. A US bank would also be more likely to benefit from BZW's strengths in UK equities, south-east Asia and Australia.

"There is a very logical case which says that the missing piece of the BZW jigsaw is a US buyer," said one senior BZW executive.

Other possible US candidates would include JP Morgan and Credit Suisse First Boston which, although Swiss-owned, is a long-established US investment bank in its own right.

But some investment bankers argue a case can be made for a European buyer, on the basis that Europe and Asia offer better growth prospects than the US.

BAT could unveil Zurich deal this week

By Christopher Adams, Insurance Correspondent

A proposed merger between Zurich, the Swiss-based financial services group, and BAT Industries, the UK tobacco and insurance conglomerate, could be announced this week.

A special board meeting of Zurich's senior executives has been set for tomorrow to consider the plans, assuming the two companies can agree terms and structure of a deal.

The meeting had been arranged before news of the talks broke at the weekend and it is still possible that the timetable could slip. Zurich declined to comment.

Shares in BAT yesterday jumped more than 10 per cent, rising 57¾p to 608½p. The Swiss group's share price gained SFr42 to SFr641.

BAT has been considering for more than a year how it could unlock the value of its insurance and tobacco interests.

The proposed deal would combine Zurich with BAT's financial services operations, which include Eagle Star and Allied Dunbar in the UK and Farmers in the US. The new company would have a market capitalisation of more than £20bn, making it the second biggest insurer in Europe after Allianz.

Rolf Hüppi, chief executive of Zurich, would be chief executive. Sandy Leitch, head of BAT's financial services arm, has been tipped to head the combined group's UK operations.

The structure has not been finalised. But BAT is likely to demerge and allot shares in its financial services arm to investors before combining the company with Zurich, which would take a 55 per cent stake.

Analysts said the deal would probably face significant regulatory hurdles in the US.

Baccy to the future, starring Batmen

David Blackwell tips the tobacco side to grow after the financial services merger

So BAT Industries is to parcel off its insurance arm in alliance with Zurich, the Swiss financial services group, to concentrate on its tobacco roots. Good news for the out-of-favour tobacco industry.

Investors tempted by tobacco have had one story on their minds recently – the proposed $368.5bn US tobacco settlement.

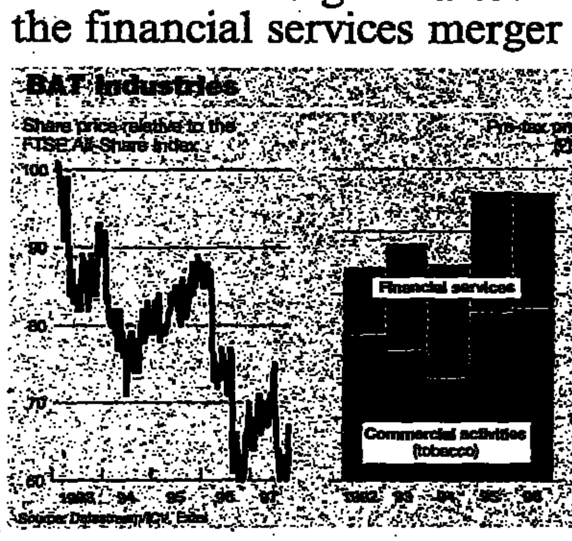
Its effect has been to shroud the industry in gloom. But away from the US and its courts, the bigger picture looks brighter than tobacco company valuations would suggest.

Admittedly, the UK market is in decline. But unlike Imperial and Gallaher, BAT is not in the UK.

BAT dwarfs Imperial and Gallaher, making 700bn cigarettes a year compared to their 50bn each. It is a world-class force, holding the number three position behind Philip Morris and RJR Nabisco in the US. Brands include State Express 555, Lucky Strike and Pall Mall.

The US market is also falling. In July the group reported flat interim tobacco trading profits of £800m – but the America-Pacific region's profits fell 20 per cent to £270m as US volumes fell while marketing and legal costs rose.

However, the world market for cigarettes is growing by 1 to 2 per cent a year – a fact often overlooked. Further, the world's smokers want US and UK-style cigarettes in preference to others. As a result, BAT and Philip Morris could be seeing annual growth of up to 5 per cent, analysts suggested yesterday.



The stock market yesterday looked favourably on the possibility that BAT could soon be the third participant in a revitalised UK tobacco sector. Shares in Imperial, demerged from Hanson a year ago valued at £2bn, rose 20½p to 391½p. Shares in Gallaher, floated out of American Brands at £2.2bn this year, rose 35p to 330p.

Jonathan Fell, tobacco analyst with Merrill Lynch, said BAT's management had come up with "a good deal. The market and the shareholders have been waiting for a demerger".

Even after yesterday's 60p rise in BAT shares to 611p, Mr Fell is confident the tobacco business is undervalued, given its potential in emerging markets.

He has calculated the weighted average 1998 p/e multiple of five European tobacco groups – including Imperial and Gallaher but excluding BAT – at 11.6. This compares with his calculation of just 7.5 for BAT's tobacco business.

The discount mainly reflects the uncertainty surrounding the US settlement – BAT owns Brown & Williamson Tobacco, the third-biggest US cigarette maker.

Last month the stakes were raised when President Clinton's demand for a toughening-up of the proposed US tobacco settlement appeared to be putting strains on the fragile alliance between BAT and the two biggest US-owned tobacco companies.

However, analysts believe the US situation should be sorted out in the next six months or so. "On that basis there is a lot of scope to push the BAT price up – possibly over 700p," argued Mr Fell.

At that level the tobacco business would have a value of more than £9bn against about £6bn at the current price, taking into account a valuation of about £10bn for the financial services.

Further consolidation is unlikely in the UK, from where Gallaher and Imperial have launched attacks on overseas markets. But BAT – which achieved critical mass in the US with the £1bn acquisition of American Tobacco nearly three years ago – is more interested in growing markets.

In July the group repurchased Cigarrera La Moderna, the Mexican cigarette maker it sold in the mid-1980s, for $1.7bn. Freed from the distractions of insurance, upcoming privatisations in Austria, Italy and Turkey may prove tempting to a sharpened appetite.

Warm response from analysts

Sharp gains in BAT's share price reflected the warm response which analysts gave proposals to merge its financial services division with Zurich, writes Christopher Adams.

Most said the structure of the combined group and having Zurich as a partner would benefit BAT shareholders considerably. Some even argued that the 45 per cent share BAT financial services arm would have was generous.

"Shareholders will be getting an interest in the strong growth potential of Zurich and it should make quite a good deal. The logic of building an insurance business out of tobacco profits fell out of the window long ago," said one.

Merrill Lynch raised its target price for the stock from 680p to 710p-720p. The shares gained 58p to 609p.

Analysts said Zurich would be able to use BAT's Farmers subsidiary, the third largest personal lines general insurer in the US, to distribute products developed by its recently acquired fund management businesses, Chicago-based Kemper Group and Scudder, Stevens & Clark. It would also bring new capabilities to Eagle Star in the UK.

At least one analyst suggested the merger terms were too generous to BAT. Applying the same conservative accounting policies used by Zurich to the BAT businesses gave them a value of just over £9bn ($14.58bn) against the £10bn-£12bn which analysts had calculated.

Weak US sales growth means acquisition failed to achieve returns hoped for

Premier Farnell below forecasts

By Roger Taylor

Premier Farnell, the components distributor, is a year behind schedule in achieving the returns it hoped for from its controversial £1.85bn acquisition last year of US group Premier.

The news accompanied worse-than-expected interim results which sent the shares down 24½p to 527½p.

But Howard Poulson, chief executive, said he remained confident that the deal, which was strongly opposed by some shareholders, would produce the expected benefits in the long term.

He said the company was halfway through its three-year programme of improving customer service and moving to 24-hour delivery at Premier, now the US division of the group. However these changes were taking longer than expected to feed through into higher sales.

The US division achieved like-for-like sales growth of just 3.5 per cent in the first half. Furthermore, much of this was thanks to the distribution of the company's UK catalogue in the US, which attracted $15m-$20m in sales, rather than to a rise in sales of Premier's own products.

Several analysts downgraded their profits forecasts and changed their recommendations in response to the cautious tone of the company's comments on the trading outlook.

Mr Poulson said sales were improving quarter on quarter, with the third quarter looking likely to surpass the second. But he added that he was not yet confident enough of the long-term outlook to promise the growth would continue.

The Premier acquisition lifted interim pre-tax profits 30 per cent to £73.2m ($118.6m) despite a £5m hit from the strength of the pound during the six months to August 3. Sales rose 39 per cent to £375.5m.

The sale of the company's volume distributor in January for $300m helped cut net debt from £410m to £185.3m.

Howard Poulson: confident

P&O rejected $18m for Canberra

By Clay Harris

P&O, the shipping and property group, turned down an $18m offer for the Canberra that would have allowed the liner to stay at sea with a competing cruise operator rather than being broken up in Pakistan.

The offer from Premier Cruise Lines, a Florida-based operator, would also have given P&O a windfall profit. The break-up contract is believed to be worth only $5m, before the expense of sailing the vessel to Pakistan and flying back the crew.

P&O rejected the offer because it feared competition from the Canberra, which won the hearts of thousands of passengers over 36 years, even though Premier had agreed to demands to change the vessel's name and never to call in the UK or anywherein Europe north of Spain.

P&O also demanded that Premier agree never to market cruises in the UK and to post a £10m letter of credit on which P&O could draw if it thought the agreement had been infringed.

After agreeing to P&O's conditions, "we thought we had a deal", Premier said yesterday. But on Friday, P&O told Premier the break-up contract had been signed.

P&O said yesterday it had received a number of approaches since announcing it would take the Canberra out of service but "none of the proposals was considered suitable or viable".

Premier is building a niche in "classic cruise liners". It recently bought the Rotterdam, which was launched in 1959, two years before the Canberra.

In that case, Premier agreed to change the liner's name – to Rembrandt – and to stay out of certain markets.

Mark McVicar, shipping analyst with NatWest Markets, said P&O's decision made commercial sense. Companies were willing to sell older liners to competitors only if they could obtain a substantial premium over scrap value to compensate for the risk of losing customers. The Rotterdam fetched $90m.

Premier has not given up hope of reaching a deal. "We would be willing to re-open discussions," an executive said. But P&O insisted that the liner was on its final voyage.

Rival bidders expected to enter Redland mix

Andrew Taylor and Andrew Edgecliffe-Johnson discuss the hostile £1.67bn offer from Lafarge

Gerald Corbett, former finance director of Redland, the struggling UK building materials group, reckoned in 1992 that Lafarge had done shareholders a favour when the French group bought Redland's stake in its loss-making UK plaster board business.

Lafarge, five years later, is looking to do an even bigger favour by taking the whole of Redland off the hands of its long-suffering shareholders for £1.67bn cash.

The irony will not be lost on Corbett, now chief executive of Railtrack, who was in charge of finances when Redland became the leading French aggregate producer through a hostile £1bn takeover in 1992 of British rival Steetley.

Since then Redland has gone off the rails with Robert Napier, chief executive, openly admitting that it paid too much for Steetley.

Yesterday's hostile bid from Lafarge for Redland raises several important questions, however.

Foremost among decisions facing Redland shareholders is whether a cash offer of 320p a share is too low, as the group maintains, or, whether it might flush out a rival bidder.

Redland's share price, which had slumped from 634p in January 1994 to 257½p ahead of last weekend, surged 30 per cent yesterday to 336½p indicating that the market believes a higher price could be squeezed out.

Suggested candidates which might be prepared to mount a rival offer included Pioneer, the Australian building materials group which already has a large UK aggregates business; Hanson, the building materials rump of the former UK conglomerate; and RMC, the world's largest concrete producer.

Pioneer would appear to be the most logical candidate as Hanson would have to reverse its recently stated policy of pursuing expansion through modest bolt-on acquisitions mainly in the US, while RMC already has enough on its plate coping with a falling German construction market.

Redland's 56.5 per cent stake in RBB, its European roof tile operations based in Germany, has been regarded as a large stumbling block to a bid for the British group.

German laws protecting minority shareholders, which include the founding Braas family, have made it difficult for Redland to exert control over dividend policy and management of its subsidiary.

A successful predator would find it difficult to break up the group while the German minority remains unwilling to sell its stake and lacks the financial muscle to buy out the majority.

However, Bertrand Collomb, Lafarge chairman and chief executive, said yesterday that the opportunity of taking a large stake in the European tile industry, with sales of about FFr35bn ($5.89bn) a year, was one of the attractions of the Redland deal.

The French group, he said, was used to dealing with substantial minority shareholders at Lafarge Corporation, its US cement and aggregates subsidiary, where it owns 53 per cent of the shares.

Howard Seymour, construction analyst at BZW, remained concerned about the ability of a parent group to impose its will on the roof tile subsidiary while the German construction market remained in retreat.

BZW, which yesterday took Lafarge off its "buy-list", is forecasting annual pre-tax profits for Redland of £200m for both 1997 and 1998. This compares with a peak of £373m in 1994.

Mike Betts, construction analyst at Goldman Sachs, felt the Lafarge offer undervalued the British group.

"We compared each of Redland's major businesses with comparable operations and came up with a figure of 349p a share. That was before any cost savings that Lafarge may make which could lift the value to nearer 375p a share," said Mr Betts.

Unsurprisingly this view was shared by some Redland institutional shareholders which last week were calling for the head of Mr Napier.

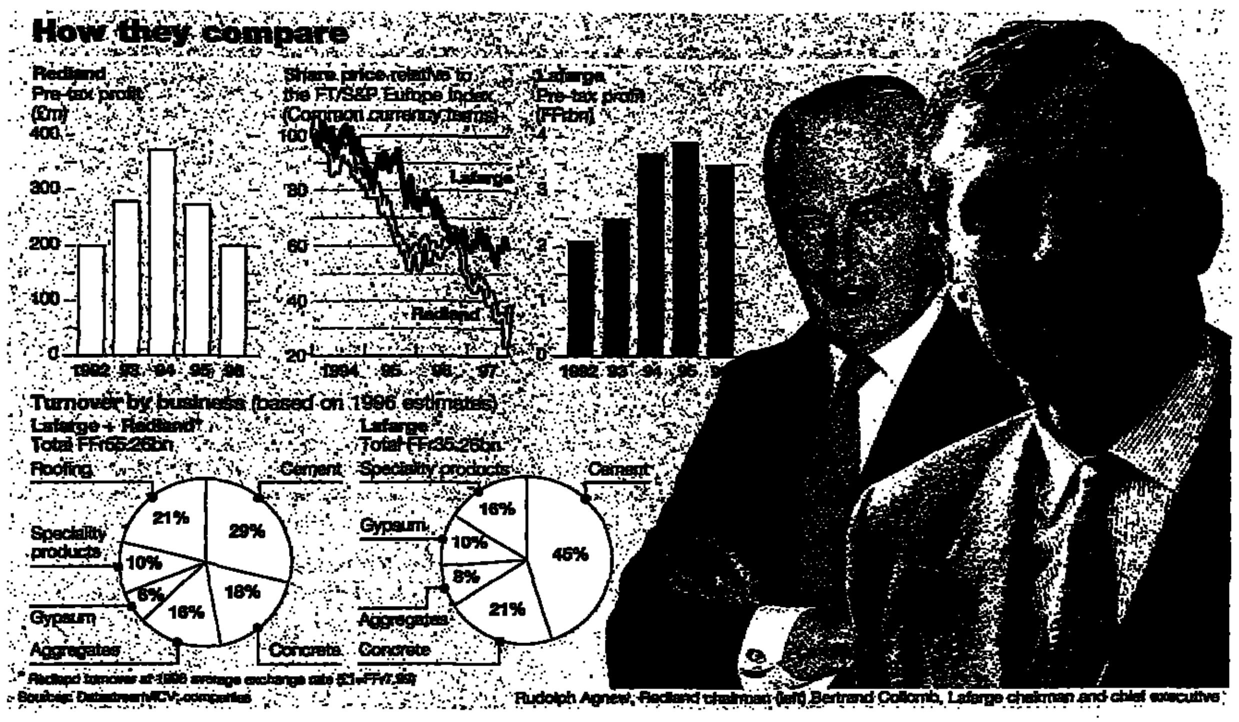
One investor expected rival bidders to emerge. He said: "I think quite a lot of midnight oil will be burned in corporate finance houses. Two weeks ago some analysts were saying it was too expensive at 220p, now they are falling over themselves to say its too cheap at 320p."

Shareholder complaints reached a crescendo last month when the group announced a slump in half year pre-tax profits from £95.5m to £34.5m and a 16 per cent fall in German turnover.

Mr Napier reported that the group would be seeking further cost savings of at least DM100m (£35m) at RBB, equivalent to more than 10 per cent of its cost base.

The record of Lafarge also has been lacklustre in recent years with pre-tax profits last year falling from FFr3.8bn to FFr3.52bn in a declining French construction market.

It has bold ambitions but then so did Redland when it bought Steetley five years ago.



Rudolph Agnew, Redland chairman (left) Bertrand Collomb, Lafarge chairman and chief executive

LEX COMMENT

Redland

Shareholders of Redland, the beleaguered building materials group, at last have a plausible exit route from the company. But there is little cause for celebration. From the current position of weakness, Lafarge's offer of 320p per share may look attractive. But with a little more foresight the company could, and should, have been in a stronger position to fight its corner. Now its loss of independence seems a foregone conclusion. The only question is what sort of value Rudolf Agnew, Redland chairman, can squeeze out of the assets.

It is difficult to believe these are worth much more than 300p per share. Anything more depends on a bidder's ability to gain strategic advantage, or achieve significant savings. The difficulty Mr Agnew faces is that, while some of Redland's activities, such as its UK aggregates business, are probably worth more to other bidders than Lafarge, nobody else is likely to bid for the whole group. The German roofing business, with a large and determined minority, could prove particularly problematic to dispose of. He can hope to squeeze perhaps another 10 per cent out of Lafarge, but Redland shareholders should not expect to get much more than 350p.

Whether Lafarge should pay this much is highly doubtful. The existing offer may boost earnings, but post-tax returns of about 7 per cent are value destroying. Lafarge may make vague claims on world leadership, but in the context of essentially local businesses this deal looks more like empire-building.

GMG/LVMH

"Peace in our time". Like Neville Chamberlain's, GMG's proud declaration is a sure sign that a limp deal has been done behind the scenes. Of course, appeasement has its attractions, and the stock market's warm reaction makes sense simply because of the stability it brings. Yet the awkward question lurks: did Guinness and Grand Metropolitan really need to pay LVMH £250m ($405m) to get their marriage through? It is difficult to believe so. For all the noise, Bernard Arnault, LVMH's chairman, never succeeded in showing he could block the deal. So why suddenly buy him off?

Ah yes, says the GMG camp, but there will be lots of benefits from pooling the three companies' distribution networks. True, but this is just as much in LVMH's interest as GMG's, and possibly more. So there is no obvious reason why GMG should have to pay for the privilege. The fact is that Guinness and Grand Met had a perfectly credible strategy – to complete their own merger, strengthening their negotiating hand, before dealing with Mr Arnault – which has been prematurely and expensively ditched. It was a game of poker, and the Brits blinked. Of course, all is not entirely rosy for Mr Arnault. The saga does leave him awkwardly sitting on a large passive stake in GMG. Conceivably, this could be a useful bargaining chip if the idea of a spirits demerger returns down the road. All the same, for LVMH to have such a large chunk of capital tied up in this way makes questionable sense.

Adversaries toast the peace

Everyone is claiming victory in GMG's truce with LVMH, says **John Willman**

After the settlement comes the reckoning. Guinness and Grand Metropolitan, the two UK companies which want to merge to form GMG Brands, said yesterday they had agreed a ceasefire with LVMH, the French luxury goods group which wanted the deal restructured to accommodate it.

But agreement was in short supply on the real victor – and on whether the armistice was only a temporary halt in hostilities between the GMG team and Bernard Arnault, the combative chairman of LVMH.

The optimistic interpretation was that everyone was a winner. That was what the markets appeared to think: Guinness shares gained 28½p to 605½p, GrandMet rose 21p to 604p, while in Paris LVMH shares were up FFr25 to FFr1,248.

The settlement ends the uncertainty over GMG's future by bringing the largest shareholder in both companies onside. Mr Arnault had threatened to raise his 11.1 per cent stake in GrandMet to deny the merger the 75 per cent majority it needs from shareholders to proceed.

The deal could have been rearranged to require a simple majority vote – at a cost of £80m ($130m) in stamp duty. But Mr Arnault would have remained as a dissident shareholder, able to stop the full integration of the two companies.

Yesterday's truce also lifts the threat of litigation over LVMH's claim that the merger would terminate its agreement with Guinness over valuable joint distribution ventures around the world. And it begins to open the joint ventures to GrandMet's brands.

In return, Guinness will pay LVMH £250m when the merger is approved by shareholders. Bringing GrandMet into the joint ventures will produce £40m a year in cost savings, half of which will go to GMG to add to the £175m already forecast from the merger.

And since GMG will own 34 per cent of LVMH, it will get a third of the French company's £20m share of these new cost savings. That means more than £26m a year extra for the merged company – the value of which more than outweighs the payment to LVMH.

"It's a sensible price to pay which is earnings-neutral," said Phil Hawkins at Merrill Lynch. "It gets rid of a year of uncertainty for shareholders and – as important – the staff in the joint ventures."

There are also big benefits for LVMH, not least in the £250m payment it will receive for dropping its challenge to the merger.

It will also get its half share of the £40m a year cost savings calculated to flow from merging GrandMet brands into the three largest joint ventures – worth another £250m at any reasonable multiple.

And Mr Arnault will get his share of the £2.4bn distribution to investors promised when the merger was announced on May 12. That is a further £250m for the man with 11 per cent of the shares in the merged group – a deal worth £750m overall for LVMH's shareholders.

Yet some of those close to the deal give differing accounts of the outcome.

According to one analyst, Mr Arnault gets substantially less than he had hoped for when he built his stake in GrandMet during the summer. "He wanted a share of the £175m savings from GMG but all he gets is a share of the £40m from the joint ventures," the analyst said.

Sygma

Bernard Arnault: has won concessions

Others suggested Mr Arnault had been forced to sue for peace after finding it impossible to persuade British investors to back his idea of a demerged drinks company in which he would hold a substantial minority stake.

"He couldn't afford to see a collapse in the share price of the two companies when he had bought so many GrandMet shares for more than £6," said Merrill Lynch's Mr Hawkins.

Mr Arnault's supporters point out he has won substantial concessions for his shareholders. He also lives to fight another day.

They also say that GMG has in effect shown it was in a weaker position than it pretended when it dismissed Mr Arnault's legal challenge over the distribution agreements with Guinness.

"Giving away all the added value of extending the joint ventures suggests the GMG team was not as confident about its position as publicly claimed," said another Arnault supporter.

The GMG camp says only that the likely benefits of the merger – now no longer clouded in uncertainty – greatly outweigh the price paid.

"There is no scientific calculation behind the £250m figure," said an adviser. "It is the amount Mr Arnault has charged and they can afford to pay it.

"It is the art of the possible."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bisichi Mining	6 mths to June 30	2.02	(1.51)	0.19	(0.075♥)	0.89	(0.73)	-	-	-	-	0.81
Deep-Sea Leisure Φ	6 mths to Aug 21★	1.53	(1.45)	0.436	(0.372)	.7†	(9.1)	-	-	-	-	-
Fitzwilton ♣	6 mths to June 30	159.4	(147.4)	4.27	(5.11)	1.22†	(1.37)	1.15	Jan 30	1.1	-	2.45
London & Assoc'd	6 mths to June 30	3.71□	(3.58□)	0.865	(0.821♥)	1.07	(0.89)	nil	-	0.05	-	0.78
Premier Farnell	6 mths to Aug 3	375.5	(442.3)	73.2	(56.1♠)	13.6†	(13.6)	5.7	Nov 28	5.2	-	12
South Beach Φ	6 mths to June 30☆	0.253	(0.229)	0.506L	(0.367L)	0.57L	(0.71L)	-	-	-	-	-
Tay Homes	Yr to June 30★	131.5	(110)	7.85♥	(1.12)	18.1	(2.5)	5.8	Nov 24	5.45	17.5	7

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Scottish National	Yr to Sept 30	183.4	(80.4)	15.3	(13.7)	9.55	(8.59)	3.95	Jan 7	3.2	9.55	8.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ★Comparatives restated. ♣Irish currency. □Gross income. ☆Comparatives for 10 months to December 31.

هكذا من الأصل

INTERNATIONAL PEOPLE

Wallis heads LucasVarity

Ed Wallis, chairman of PowerGen, will take over from Sir Brian Pearse as chairman of LucasVarity next May, the Anglo-American car components group.

Wallis, a non-executive director of the company since 1995, was last week appointed deputy chairman.

The retirement of Sir Brian, 64, will leave Wallis, 57, and Syd Gillibrand, another non-executive, as the only former Lucas Industries board members remaining. The UK group merged with Varity Corporation of the US in May 1996.

Victor Rice, the former Varity boss who is now LucasVarity's chief executive, was "at one with" Wallis, the company said.

Mark Little, an analyst with NatWest Securities, welcomed the appointment: "It makes a change to have someone who is not a Varity director. Anyone who can stand up to Victor Rice should be welcomed."

There was speculation earlier this year that Sir Brian would be replaced by Sir Bryan Nicholson, a former Varity director said to be a close ally of Rice.

Neil Arnold, the former chief financial officer of Varity who became the group's finance director in December, was also appointed to the board yesterday.

Finance director John Grant left unexpectedly last December after the board decided it wanted somebody with more international expertise.

Wallis's appointment comes as LucasVarity is completing a £250m ($450m) restructuring aimed at achieving £120m of annual savings by the end of 1998. Its shares have underperformed the market by more than 25 per cent since the merger was completed.

The company said it was "on track" to complete the bulk of its £100m disposal programme by the end of January. The nine businesses up for disposal include Lucas Electrical do Brazil, Lucas Heavy Duty Parts, Lucas South Africa and Lucas Indiel Argentina.

Rice is also carrying out a programme of 3,500 job cuts and other efficiencies aimed at raising margins to 10 per cent in the next two years.

Andrew Edgecliffe-Johnson, London

Lucent promotes McGinn to CEO

Richard McGinn has been named chief executive of Lucent Technologies, the world's largest telecommunications manufacturer, in succession to Henry Schacht who will continue as chairman until next February.

McGinn, 51, has been president and chief operating officer of the company for the past two years. He and Schacht were appointed to their respective roles when the decision was taken in late 1995 to divest AT&T of its manufacturing and computing arms.

Since them Schacht and McGinn have overseen a renaissance in Lucent's fortunes, marked by sales to AT&T's competitors in the US and by significant growth abroad.

McGinn said that his twin objectives were to: "intensify our customer focus and accelerate the growth of our business outside the US". He said there was a "ferocity in the marketplace" as the technology changed with dizzying speed.

McGinn began his career in telecoms with Illinois Bell in 1969, joining AT&T in 1978. He was vice-president of the company's Asia Pacific and America's regions and became president of the group's computer business in 1991.

Immediately prior to the appointment to Lucent, he was president and chief executive of AT&T's network systems group.

Alan Cane, London

Schwab executive to Sharelink

Charles Schwab, the big US low-cost broker, has strengthened ties with its UK subsidiary Sharelink by appointing Mark Collier, managing director of Schwab International, its new boss.

He has left Schwab's headquarters in San Francisco to take control of the broker, based in Birmingham, England.

Collier, 43, who takes on the new post of chief executive for Schwab's European business has big targets to meet. Sharelink is already the UK's biggest execution-only broker, handling 8 per cent of the share deals on the London market. But, says Collier "we want to take that to 15 to 20 per cent of trades over the coming two to three years".

Collier hopes to increase Schwab's client base both in the UK and in continental Europe next year by offering mutual funds and UK and US share dealing services across the world wide web. Schwab is the biggest online broker in the US, with 60 per cent of the market, and Collier will have the job of replicating that success in Europe.

The Briton has only one year of service at Schwab under his belt. Before that he worked for 10 years for US fund giant Fidelity Investments, latterly at its Boston headquarters. He will therefore be mindful of the huge debacle that resulted when Fidelity's UK execution-only brokerage fluffed the implementation of a fancy new computer system designed to give UK investors the slick service enjoyed by their US peers.

Collier's appointment presages a series of other management changes at Sharelink which will be announced next week.

Schwab bought Sharelink from managers and institutions for £40m ($70m) in 1995.

Jonathan Guthrie, London

ON THE MOVE

■ Eduardo Henrique Rangel has joined ING BARINGS as head of equity capital markets in Brazil. He has joined from Banco Pactual S A where he was head of equity capital markets.

■ John Monjo, former US Ambassador to Indonesia, Malaysia and Pakistan has joined RMA INTERNATIONAL, the Washington-based strategic planning firm, as a senior adviser.

■ OMV has appointed Marc Hall, 39, and Gerhard Roiss, 45, members of its executive board and Walter Hatak deputy chairman of the board. Hall has been head of the natural gas division at OMV since January 1995. Roiss has been chief executive officer of PCD Polymere.

■ BNP LONDON EMERGING MARKETS has appointed Avinash Vazirani, 33, head of emerging markets asset management for South Asia. He was previously the managing director of Gem Dolphin Investment Management Managers.

■ ICO GLOBAL COMMUNICATIONS, the global mobile satellite communications company, has appointed Fredrik Verkroost its chief commercial officer and executive vice-president. His most recent position was with Electowatt (Landis & Gyr) Group.

■ ROGERS & WELLS, the law firm, has announced that Laurence Cranch, 51, has been elected managing partner and executive committee chair for a five-year term, effective October 1. He succeeds James Asher, who will become vice-president – chief legal and development officer, of the Hearst Corporation. Cranch, is chair of the firm's corporate department.

■ BANQUE NATIONALE DE PARIS has announced two new appointments in the fixed income sales department in London. Paul Osment joins from Sanwa International to cover high yield products. Victoria Walton-Gould joins from DKB International to cover Swiss institutions.

■ ANZ INVESTMENT BANK, the investment banking arm of Australia and New Zealand Banking Group, has appointed Peter Hodgson to its global structured finance division as head of global structured finance Australia. Hodgson, who will be based in Melbourne, joins from BZW.

■ PEOPLE'S BANK has appointed James Biggs to succeed David Carson as president from January 1. Carson will remain chief executive and chairman until January 9, 1999, when Biggs will take over as chief executive. Under the terms of Carson's contract, he will retire as chairman on December 31, 1999. Biggs will then assume this role as well.

■ DRESDNER KLEINWORT BENSON North America LLC has announced the appointments to its corporate finance department of Matthew Beizer as head of financial institutions and Dalip Gambir as head of telecommunications and media. Beizer joins from BZW, the investment banking arm of Barclays Bank, and Gambir joins from Citicorp.

■ SQUIRE, SANDERS & DEMPSEY, the law firm, has announced the opening of a Madrid office to support the firm's expanding practice in Spain and elsewhere in the European Union. The office will be managed by Juan Picon, formerly of Clifford Chance, Madrid. Joining him is Javier Santos, a former partner of the Creades firm in Madrid.

■ COMPUTER SCIENCES CORPORATION has appointed Peter Stocks head of its UK utilities practice. Before joining CSC, Stocks was director of the utilities division as EDS (UK) and also a management consultant for A.T. Kearney, which is a wholly owned subsidiary of EDS.

■ GE CAPITAL GLOBAL CONSUMER FINANCE (GCF) has appointed Yves Arrouet vice-president, business development South America. Arrouet will be based in Buenos Aires, Argentina. Prior to his appointment, Arrouet was based in London as GCF's vice-president strategic investment for Europe.

■ GLOBAL ASSET MANGEMENT has appointed its second senior fund manager in two months in the specialist area of Asian currencies and fixed income investment. Andy Sng has joined GAM from Chase Manhattan Bank (Singapore).

■ GOLDMAN SACHS, the international investment banking and securities firm, has expanded its European Telecoms investment research team with the appointment of Francis Woollen and Deborah Collins from UBS.

■ BANKBOSTON has appointed Andrew Bastone director and regional manager of global financial institutions Eastern Europe, Middle East and Africa. He joins from Slovenia's largest Bank, Nova Ljubljanska Banka.

■ CHASE MANHATTAN BANK has appointed Kevin Brolley managing director and head of bond and credit product sales in Europe. He joins from Morgan Stanley.

■ HOECHST MARION ROUSSEL, the global pharmaceutical company of Hoechst AG, has appointed Gerald Belle president for the company's North American region. Belle, who formerly served as president, Hoechst Marion Roussel Canada, succeeds Peter Ladell, who has been serving as president of Hoechst Marion Roussel in North America, in addition to his responsibilities as chief operating officer of Hoechst Marion Roussel AG.

■ ENRON OIL & GAS INTERNATIONAL, a wholly owned subsidiary of Enron Oil & Gas, has announced the promotion of Dennis Ulak to EOGI chairman and chief executive and the election of Jeffrey Sherrick as president and chief operating officer of the international subsidiary. Ulak had been EOGI president and chief operating officer prior to his promotion. Sherrick joins the company's international operations after serving as EOG senior vice-president acquisitions and engineering.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

LAW

A question of jurisdiction

EUROPEAN COURT

Where similar legal proceedings were brought in two different European Union member states, and the first case was brought before the Brussels Convention came into force and the second afterwards, the court hearing the second case should stay proceedings until the jurisdiction of the first court had been established, the European Court of Justice ruled.

The ruling arose out of a debt action between Baroness von Horn and Cinamond. The Baroness was domiciled in Portugal and Mr Cinamond domiciled in the UK. She claimed money from Mr Cinamond in connection with the sale to a Gibraltese company of shares in a property company.

Mr Cinamond brought proceedings in Portugal for a declaration that he did not owe the money claimed. A year later the Baroness issued a writ in the English High Court for payment. During the time between the two actions, the San Sebastian Convention "the Accession Convention", entered into force between Portugal and the UK, thereby bringing into operation the Brussels Convention between the two countries.

Mr Cinamond argued that the English courts did not have jurisdiction on the basis of the Convention. The case went to the House of Lords, which referred it to Luxembourg.

The main issue was whether the Brussels Convention on jurisdiction applied in such a situation. The Convention stated that where two courts in different states were seised of the same cause of action involving the same parties, then any court other than the court first seized should stay its proceedings until such time as the jurisdiction of the first court had been established.

The European Court found the Accession Convention did not explicitly deal with the issue before it. It therefore examined the relevant provisions of the Brussels Convention.

It found that the provisions required other proceedings to be taken into account and not just those brought after the Convention came into force. The Accession Convention did not specify whether all actions had to be brought after its date of entry into force or only those proceedings before the court last seised.

Despite the fact that most language versions of the Brussels Convention appeared to suggest that these provisions were only to apply if all the relevant proceedings were commenced after it came into force, the German and Dutch versions permitted an interpretation allowing the provisions to apply where not all the proceedings had been brought before the Convention's entry into force.

The Court said neither scenario was wholly without unsatisfactory consequences. It thus sought to interpret the Accession Convention in the light of its structure and aims as well as those of the Brussels Convention.

The Convention had to be interpreted in such a way as to make it possible for the legal protection of EU citizens and for the recognition and enforcement of judicial decisions to be strengthened.

Thus, if a court hearing the first case had assumed jurisdiction on the basis of a rule which accorded with the provisions of the Brussels Convention, then the court hearing the second action should stay proceedings and decline jurisdiction.

However, if the jurisdiction of the first court was founded on rules which did not accord with the Convention's provisions on jurisdiction, that court's judgment would not be recognised in the state where the second action was being heard and the second court should not stay proceedings and retain jurisdiction

C-163/95: von Horn v Cinamond, ECJ 6CH, October 9 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL CAPITAL MARKETS

Europe moves higher but volumes low

GOVERNMENT BONDS

By Simon Davies in London

European government bond markets moved higher yesterday, but volumes were substantially lower in the absence of any impetus from the US, where the Treasury market was closed for Columbus Day.

Alan Greenspan, chairman of the US Federal Reserve, is due to give another speech today and investors were keen to hold their fire given the dramatic response to his more cautious comments last week.

UK GILTS continued to be driven by the debate over when the UK might join the planned European monetary union. Gordon Brown, UK chancellor, tried to pour cold water on the latest newspaper reports suggesting the UK could enter soon after the first wave in January 1999. He said there was no change in government plans on Emu – but investors saw little reason to believe him, and the December future climbed ⅝ to 119½.

The spread between gilts and bunds narrowed by 4 basis points to 96 points.

Kevin Adams, gilts strategist at Barclays, said: "We have travelled a great distance in short order in the gilts market. I'm not sure what will push it further in the short-term."

However, there was further talk of French investors buying gilts as one of the few remaining so-called convergence trades.

Italy was the other main focus yesterday, as investors reacted to further twists and turns in its political crisis.

The BTP December future in London settled at 111.98, up 1.08 from Friday's close. The yield spread over bunds narrowed by 11 basis points, as investors responded to the possible survival of Romano Prodi's government.

Bond prices had not suffered unduly after Mr Prodi's resignation last week. But news that he might be able to rebuild his unhappy alliance with the Reconstructed Communists left the bund spread within a basis point of its pre-crisis level.

Mr Andrew Bevan, senior bond economist at Goldman Sachs, said it was difficult to imagine a scenario in which Italy would disappear from the convergence game.

"There is no reason why the spread in the 10-year sector should not narrow to 40 or 50 basis points," he added.

GERMAN BUNDS settled 0.25 higher at 102.50 in London, with only 91,000 contracts traded, compared with estimated volumes of 277,946 contracts on Friday.

● Standard & Poor's, the US credit rating agency, yesterday downgraded Indonesia's sovereign credit rating to reflect "the government's diminished balance of payments and fiscal flexibility". The rating on Indonesia's long-term foreign currency bonds was reduced from BBB to BBB–.

The move follows the downgrade by Moody's Investors Service of Thailand's sovereign debt rating two weeks ago. The agency expressed concerns over potential delays in Thailand's economic reforms and the likely need for substantial recapitalisation of the financial sector.

Liquidity crunch looms in JGBs

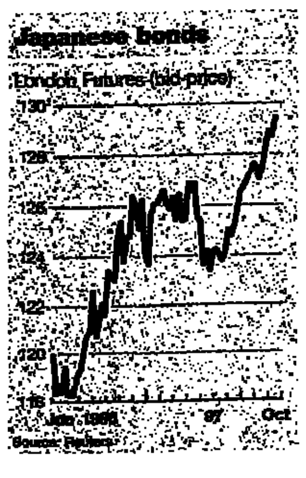
Japan's monetary authorities are busy trying to fend off a repeat of last year's September liquidity squeeze in the Japanese government bond market.

This year, analysts have predicted a short squeeze in the market because of the unusually small size issues deliverable for the December 10-year bond futures contract. The small issue size of the cheapest deliverable bonds, and the recent rise in the cost of borrowing JGBs on the repurchase, or repo, market, are setting the market up for a delivery imbalance, they warn.

Last year, hedge funds built up large long positions in the benchmark September futures, as well as in the cheapest cash bonds deliverable against them. In order to settle short positions in the September futures contract, other participants had no choice but to borrow bonds in the JGB repo market at unusually high costs, or buy back their short futures positions. As a consequence, those with long futures positions were able to rake in large profits.

The reason behind the widely variable sizes of JGB issues is that, unlike most large capital markets, Japan follows a monthly system of holding primary bond auctions. In addition, issues trading near par and yet to pay their first coupon can be reopened, creating glaring disparities in the total size of issues at any one maturity. For example, Y1,600bn worth of JGBs mature in September 2003, while outstanding bonds due in September 2004 amount to Y5,000bn.

Meanwhile, the cheapest to deliver bond for any JGB futures contract is generally the issue with the shortest maturity, in a delivery basket comprising bonds with maturities of between seven and 11 years. As it is impossible to predict how many JGB owners will stand for



delivery before the actual delivery date, participants pricing in advance of delivery have to estimate the probability that the final delivery requirement will exceed the availability of cheapest to deliver bonds.

If the delivery requirement exceeds the issue size, traders with short positions have to choose between closing their futures positions or delivering a more expensive bond. Either option could significantly cut into their anticipated profits.

In recent weeks, hedge funds are believed to have been moving to exploit the looming liquidity crunch by buying massive amounts of JGBs No 175 and 176, the cheapest deliverable issues against the December future.

Correspondingly, repo rates have tightened substantially. Last week, the JGB No 175 was quoted at minus 0.40 per cent and the No 176 at minus 1 per cent for the three-month period covering December's future delivery date. In comparison, the benchmark 10-year JGB No 182 was indicated at plus 0.35-0.40 per cent.

A squeeze could raise further debate about the inefficiencies of Japan's monthly auction system. Other leading markets hold fewer auctions – ranging from every six weeks to quarterly – but of larger, more liquid issues.

The Bank of Japan last week called in foreign brokers to "investigate" the situation, raising the possibility of intervention. The BoJ's main concern is that cheapest to deliver JGBs do not become so scarce that short sellers fail to deliver, causing a settlements crisis.

However, intervention in the already codified delivery process could shake confidence in the market and risk capital flight out of Japan.

Last Tuesday the No 182 yield fell to a record low of 1.710 per cent after government admissions that Japan was likely to miss its economic growth target of 1.9 per cent in the year to March. Yesterday the yield stood at 1.745 per cent.

Economists remain divided on the future of JGB yields, but most favour the bulls, amid the stream of gloomy economic data and weakness in equities.

Gwen Robinson

Russia fund to avoid blue chips

By Vincent Boland

Brunswick Capital Management, a London-based investment management firm specialising in the former Soviet Union, is to launch a new fund next week to invest in second-tier and third-tier Russian stocks outside the blue-chip sector.

The firm is seeking to raise $125m for the Brunswick Russian Emerging Equities Trust, but it said this could rise to $250m depending on the response from potential investors. The fund, which will be closed-ended, will be listed in London and Luxembourg.

SBC Warburg Dillon Read will be sole market-maker and placing agent for the fund, the third to be launched by Brunswick in the past 14 months. In August last year it set up the Brunswick Russian Growth Fund, and in July this year it launched the Brunswick Russian Capital Appreciation Fund.

● An international share offering by Pfleiderer, a German supplier of interior construction and infrastructure technology products, was priced yesterday at between DM36 and DM42 a share.

At that range the company's share offer is valued at DM317m to DM370m – or, if an over-allotment option is exercised, at DM349m to DM407m.

Pricing and share allocations are to be made on October 24, and the shares start trading on October 27.

The offer, for which roadshows got under way yesterday in Frankfurt, is being lead-managed by Deutsche Morgan Grenfell and Dresdner Kleinwort Benson.

Luxembourg francs revived

INTERNATIONAL BONDS

By Edward Luce

Columbus Day in the US set the tone for the eurobond markets yesterday, with little new issuance and insignificant trading flows.

SWEDEN, however, spotted a window in the Luxembourg franc market after last week's co-ordinated interest rate rises across Europe.

An official at ABN Amro, which lead-managed the seven-year issue with BGL, said it was the first notable issue in Luxembourg francs for several weeks.

The EUROPEAN INVESTMENT BANK also came to the Luxembourg market yesterday with a LFr2bn issue. However, bond analysts said that at a yield of 4.84 per cent, the EIB's seven-year offering was priced too low for most Belgian retail investors.

"The bare minimum in the Luxembourg market is a yield of 5 per cent," said one official. "Otherwise investors might as well put their money on deposit."

Sweden's LFr2bn offering, which was priced to yield 5 per cent exactly, came at a spread of 12 basis points through the Belgian government OLO curve.

The EIB bond was priced at minus 21 basis points to the OLO curve. Officials said this was possible because of strong retail sentiment towards sovereign and multilateral names in the Luxembourg market.

"Until last week's interest rate rise investors were reinvesting their redemptions in Danish kroner and US dollars, but now there is a bit more pick-up in Luxembourg francs, so it seemed a good time to issue," said one.

The Belgian central bank followed the Bundesbank last week, raising its central rate by 30 basis points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
D-MARKS							
Jaakko Poyry Group(a)*	100	(a1)	100.00	Oct 2002	0.35	-	Chase Manhattan Bank
FRENCH FRANCS							
Deutsche Ausgleichsbank	2bn	5.75	99.904R	Oct 2008	0.35R	+14(i)	CDC/Deutsche MG
Hypo in Essen(b)‡	650	(b1)	100.25	Nov 2002	0.25	-	CCF/Commerzbank
SWISS FRANCS							
Daewoo Electronics Co(c)*§	120	1.00	100.00	Oct 2002	1.75	-	CSFB
ITALIAN LIRE							
Asset Backed Capital‡	300bn	(d)	100.00R	Nov 1999	0.04R	-	JP Morgan Securities
LUXEMBOURG FRANCS							
Kingdom of Sweden(l)	2bn	5.375	102.20	Dec 2004	1.875	-	ABN Amro HG/BGL
European Inv'ment Bank(e,l)	2bn	5.25	102.125	Apr 2004	1.75	-	BIL/C Européen/Paribas
DRACHMA							
Norddeutsche Landesbank	10bn	9.375	99.79R	Nov 1999	0.20R	-	IMI Bank Luxembourg

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. §Convertible. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) Amortises in equal quarterly instalments from Oct 00. Callable semi-annually from Oct 98 at par. a1) 3-mth Libor +45bp. b) Oeffentliche Pfandbrief. Callable semi-annually from Nov 99 at par. b1) 3-mth Pibor +20bp; max 6.2%. c) Conv price: Won6,160. FX: Won626.02/SFr1. Puttable on 30/10/00 at 108.94%. Callable from 30/10/99 at 109.94% and from 30/10/98 at 110% subject to 130% hurdle. Refixing clause 30/10/98 & 29/10/99; min Won5,000. d) 3-mth Libor –5bp. e) Fungible with E1.3bn upon Emu. i) Over interpolated yield. l) Long 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Oct 13	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.4902	5.14	+0.04	+0.43	+0.36	–1.48
	10/07	10.000	125.5228	6.46	+0.06	+0.43	+0.05	–1.11
Austria	09/99	7.000	104.3900	4.56	–0.03	+0.27	+0.35	+1.00
	07/07	5.625	99.9400	5.63	–0.03	+0.15	–0.07	–0.41
Belgium	04/99	7.000	103.5700	4.45	–0.06	+0.34	+0.45	+1.08
	03/07	6.250	103.9600	5.69	–0.03	+0.16	–0.05	–0.37
Canada	03/99	4.000	100.0400	3.97	–0.01	+0.20	–0.07	–0.32
	06/07	7.250	111.1800	5.70	-	+0.22	–0.27	–0.99
Denmark	12/99	6.000	102.2500	4.86	–0.03	+0.27	+0.32	+0.86
	11/07	7.000	106.8400	6.07	–0.07	+0.20	–0.16	–0.71
Finland	01/99	11.000	107.9274	4.30	–0.03	+0.20	+0.44	+0.51
	04/06	7.250	109.6119	5.78	–0.03	+0.21	–0.09	–0.68
France	11/99	7.000	104.9875	4.43	–0.02	+0.30	+0.45	+0.65
	10/04	6.750	106.2600	5.31	–0.03	+0.20	+0.17	–0.11
	10/07	5.500	99.2600	5.60	–0.03	+0.18	+0.05	–0.30
	10/25	6.000	98.3600	6.12	–0.01	+0.10	–0.11	–0.68
Germany	08/99	3.500	98.7600	4.28	–0.02	+0.31	+0.40	+0.83
	07/04	6.750	107.8900	5.32	–0.05	+0.19	+0.06	–0.28
	07/07	6.000	103.0100	5.59	–0.08	+0.15	–0.06	–0.39
	07/27	6.500	104.7400	6.15	+0.01	+0.09	–0.16	–0.69
Ireland	04/99	6.250	100.9900	5.50	–0.03	+0.08	–0.20	–0.35
	08/06	8.000	113.0700	6.04	–0.03	+0.13	–0.27	–0.85
Italy	05/00	6.000	101.5500	5.34	–0.24	+0.02	–0.41	–1.98
	05/02	6.250	102.6000	5.60	–0.19	+0.03	–0.32	–1.99
	07/07	6.750	104.7900	6.09	–0.14	+0.05	–0.30	–2.20
	11/26	7.250	108.1200	6.62	–0.12	-	–0.39	–2.09
Japan	06/99	4.800	107.1200	0.51	–	+0.02	+0.01	–0.45
	12/02	4.800	117.1700	1.35	–0.04	+0.01	–0.17	–0.75
	09/05	3.000	108.7400	1.81	–0.04	–0.01	–0.24	–0.86
	03/17	3.500	113.1500	2.63	–0.03	–0.05	–0.23	–0.77
Netherlands	06/99	7.500	104.9100	4.35	–0.03	+0.23	+0.30	+0.97
	02/07	5.750	101.2400	5.57	–0.03	+0.15	–0.02	–0.34
New Zealand	02/00	6.500	99.2446	6.84	–0.01	–0.09	–0.37	–0.97
	11/06	8.000	108.0951	6.77	+0.08	+0.11	–0.30	–1.31
Norway	01/99	9.000	105.6099	4.41	–0.03	+0.23	–0.05	–1.01
	01/07	6.750	107.0598	5.74	–0.02	+0.13	–0.16	–0.95
Portugal	03/99	8.500	104.5725	5.08	–0.01	+0.18	–0.07	–1.64
	02/07	6.625	104.0461	6.04	–0.02	+0.18	–0.21	–1.46
Spain	07/99	7.400	104.1491	4.90	–0.06	+0.17	–0.08	–1.67
	03/07	7.350	109.9286	5.94	–0.06	+0.14	–0.25	–1.71
Sweden	01/99	11.000	107.2010	4.94	–0.05	+0.19	+0.14	–0.45
	08/07	8.000	112.6150	6.24	–0.05	+0.26	–0.29	–1.06
Switzerland	03/99	4.000	102.7000	2.02	–	+0.31	+0.30	+0.38
	06/07	4.500	107.4000	3.56	–	+0.15	+0.01	–0.27
UK	08/99	6.000	98.3906	6.95	–0.04	+0.09	+0.08	+0.74
	11/04	6.750	101.3594	6.51	–0.06	+0.17	–0.41	–0.62
	12/07	7.250	105.9688	6.44	–0.06	+0.16	–0.47	–1.02
	06/21	8.000	118.8438	6.44	–0.05	+0.11	–0.42	–1.37
US	07/99	5.875	100.0390	5.85	-	+0.15	–0.06	–0.08
	05/04	7.250	106.0550	6.12	-	+0.17	–0.14	–0.16
	08/07	6.125	99.8440	6.14	-	+0.19	–0.15	–0.41
	08/27	6.375	99.1560	6.44	+0.01	+0.18	–0.15	–0.41
ECU	03/99	5.000	100.3200	4.74	–0.05	+0.24	+0.25	+0.67
	04/07	5.500	98.0200	5.77	–0.03	+0.16	–0.14	–0.51

London closing. New York closed. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Oct 13	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.46	+0.87	+0.31
Austria	5.63	+0.04	–0.52
Belgium	5.69	+0.10	–0.46
Canada	5.67	+0.08	–0.48
Denmark	6.08	+0.49	–0.07
Finland	5.78	+0.19	–0.37
France	5.60	+0.01	–0.55
Germany	5.59	-	–0.56
Ireland	6.04	+0.45	–0.11
Italy	6.09	+0.50	–0.06
Japan	1.81	–3.78	–4.34
Netherlands	5.57	–0.02	–0.58
New Zealand	6.77	+1.18	+0.62
Norway	5.74	+0.15	–0.41
Portugal	6.04	+0.45	–0.11
Spain	5.94	+0.35	–0.21
Sweden	6.24	+0.65	+0.09
Switzerland	3.58	–2.01	–2.57
UK	6.44	+0.85	+0.29
US	6.15	+0.56	-
ECU	5.77	+0.18	–0.38

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Oct 13	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	98.2276	7.48	+0.01	–0.15	+1.45
Poland	07/00	7.750	BBB–	102.8532	6.56	+0.02	–0.11	+0.65
Russia	11/01	9.250	BB–	104.3090	7.97	+0.01	–0.56	+2.00
LATIN AMERICA								
Argentina	01/17	11.375	BB	118.3006	9.49	+0.05	–0.03	+3.19
Brazil	11/01	8.875	BB–	103.1530	7.93	+0.01	–0.08	+1.96
Mexico	01/07	9.875	BB	107.9280	8.61	+0.04	–0.31	+2.46
ASIA								
China	07/06	7.750	BBB+	104.3288	7.06	+0.02	+0.10	+0.93
Philippines	10/16	8.750	BB+	99.6382	8.80	–0.04	+0.07	+2.52
Thailand	04/07	7.750	A–	97.7932	8.08	-	+0.52	+1.93
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	103.3704	7.71	+0.01	-	+1.80
South Africa	12/99	9.625	BB+	105.5378	6.82	-	–0.12	+0.97
Turkey	05/02	10.000	B	104.6665	8.69	+0.01	+0.04	+2.66
BRADY BONDS								
Argentina	03/23	5.500	BB	75.7942	8.25	+0.15	–0.31	+1.87
Brazil	04/24	5.250	BB–	74.2284	8.33	+0.01	+1.72	+1.93
Mexico	12/19	6.250	BB	82.7473	7.81	+0.01	–0.22	+1.59
Venezuela	03/20	6.750	B+	86.4978	8.06	+0.12	–0.21	+1.72

London closing. Prices in US$. Source: Interactive Data/FT Information.
Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.80	98.94	+0.28	99.02	98.72	86,336	134,977
Mar	98.34	98.42	+0.28	98.36	98.34	12	6,067
Jun	97.90	97.98	+0.28	97.90	97.90	2	–

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
97	-	1.91	-	0.07	0.26	0.82
98	0.89	1.18	1.32	0.23	0.52	1.18
99	0.32	0.61	0.81	0.66	0.95	1.66
100	0.07	0.27	0.47	1.41	1.60	-
101	0.02	0.09	0.25	2.35	2.42	-

Est. vol. total, Calls 8,940 Puts 12,009. Previous day's open int., Calls 78,128 Puts 93,740.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.29	102.50	+0.25	102.57	102.25	91960	318520
Mar	101.70	101.76	+0.24	101.70	101.70	100	7705

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
10250	0.36	0.68	0.58	0.89	0.36	0.68	1.32	1.63
10300	0.16	0.45	0.41	0.70	0.66	0.95	1.65	1.94
10350	0.06	0.28	0.28	0.53	1.06	1.28	2.02	2.27

Est. vol. total, Calls 11897 Puts 20786. Previous day's open int., Calls 209744 Puts 262706

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.00	103.26	+0.26	103.27	103.00	81,209	255,991
Mar	102.53	102.61	+0.23	102.55	102.53	602	2,822

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.30	111.98	+1.08	112.02	111.30	65196	119368
Mar	-	111.93	+1.08	-	-	0	1439

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11150	1.29	1.96	0.81	1.53
11200	1.01	1.67	1.03	1.74
11250	0.77	1.39	1.29	1.96

Est. vol. total, Calls 13818 Puts 4217. Previous day's open int., Calls 116789 Puts 98927

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.35	103.53	+0.40	103.56	103.33	45,868	78,069
Mar	103.11	102.98	+0.37	103.11	103.11	50	–

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	119-07	119-16	+0-20	119-22	119-06	50161	192598
Mar	119-13	119-14	+0-20	119-13	119-13	75	1937

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
119	0-55	1-24	1-41	2-16	0-23	0-56	1-13	1-52
120	0-23	0-56	1-09	1-49	0-55	1-24	1-45	2-21
121	0-09	0-33	0-49	1-21	1-41	2-01	2-21	2-57

Est. vol. total, Calls 2302 Puts 1091. Previous day's open int., Calls 82514 Puts 35091

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	97.70	97.92	+0.30	97.98	97.70	181	5,216

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115-28	115-01	–0-24	115-25	114-17	769,918	648,159
Mar	115-21	114-23	–0-24	115-14	114-10	22,724	67,785
Jun	–	114-11	–0-24	–	–	1,752	8,367

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.39	-	-	129.39	129.27	1213	n/a
Mar	128.45	-	-	128.46	128.38	184	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Oct 10	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	103.3931	6.40	+0.04	–0.20	+0.38
NY Tel	08/25	7.00	A+	98.3492	7.30	+0.03	–0.23	+0.87
CWE	05/08	8.00	BBB	107.1758	7.02	+0.04	–0.20	+0.88
FINANCIALS								
GECC	05/07	8.75	AAA	114.8951	6.62	+0.04	–0.21	+0.48
Banc One	08/02	7.25	A+	103.1462	6.47	+0.04	–0.22	+0.45
US West	01/07	7.20	BBB+	102.2179	6.96	+0.04	–0.15	+0.82
INDUSTRIALS								
WMX Tech	04/99	6.25	A–	100.1054	6.17	+0.04	–0.13	+0.34
Wal Mart	05/02	6.75	AA	101.5776	6.34	+0.03	–0.22	+0.32
Dayton Hud	06/21	9.70	BBB+	125.5889	7.39	+0.04	–0.19	+0.96
AGENCIES								
FHLMC	04/07	7.14	N/A	104.9900	6.42	+0.04	–0.21	+0.28
SLMA	03/00	7.50	N/A	103.3279	5.98	+0.03	–0.18	+0.07
FNMA	02/18	8.95	N/A	123.4034	6.80	+0.04	–0.23	+0.37
FFCB	06/06	8.85	N/A	116.7793	6.38	+0.04	–0.21	+0.24
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.3750	0.00	–	–	–
AK Stl	12/01	9.13	BB–	105.1250	0.00	–	–	–
Pacalta	06/04	10.75	B–	104.7500	0.00	–	–	–

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Close		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.83
Broker loan rate	7¼	Two month	-	Three year	5.91
Fed.funds	5⅞	Three month	5.13	Five year	6.03
Fed.funds at intervention	-	Six month	5.31	10-year	6.15
		One year	5.55	30-year	6.43

INTERNATIONAL BONDS

Oct 13	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	100.8900	5.65	–0.05	+0.03	+0.06
Spain	01/07	5.750	AA	100.3100	5.70	–0.04	-	+0.11
Philip Morris	03/04	5.375	A	98.9899	5.56	-	–0.01	+0.24
ABN Amro	03/06	3.625	n/a	99.5538	5.60	–0.04	+0.04	+0.16
EURO FFR								
Austria	01/04	5.500	AAA	100.9300	5.32	–0.02	+0.22	+0.01
Abbey Nat	02/04	6.000	AA	103.2100	5.38	–0.03	+0.20	+0.07
Cred Foncier	02/04	9.125	A	117.9000	5.68	–0.02	+0.19	+0.37
Abbey Nat	09/06	4.510	AA/	100.5741	4.43	–0.03	–0.76	–1.07
EURO LIRA								
EIB	02/07	7.000	AAA	106.7500	6.03	–0.15	–0.38	–0.06
Abbey Nat	02/02	6.800	AA	104.1000	5.70	–0.22	–0.30	–0.02
Walt Disney	06/00	8.625	A	106.2600	6.01	–0.10	–0.42	+0.63
Abbey Nat	03/07	8.000	AA/	103.5995	7.00	–0.38	–0.70	+0.91
EURO £								
EIB	12/07	7.625	AAA	106.6955	6.69	–0.07	–0.50	+0.25
Dresdner Bk	12/07	7.750	AA	104.7020	7.08	–0.07	–0.52	+0.64
RBS	01/07	8.375	A+	107.7724	7.19	–0.07	–0.56	+0.75
Abbey Nat	02/02	7.400	AA	99.9557	6.63	–0.06	–0.28	+0.03
EURO $								
EIB	04/07	7.250	AAA	104.6448	6.57	+0.02	–0.14	+0.42
ABN Amro	06/07	7.125	AA–	102.1918	6.81	+0.03	–0.16	+0.66
Quebec	01/07	7.000	A+	101.5527	6.77	+0.02	–0.18	+0.62
Citicorp	02/04	5.781	A+	99.5292	5.87	+0.01	+0.06	–0.21
EURO C$								
Bayer L–Bk	08/04	9.500	AAA	120.5174	5.77	+0.02	–0.29	+0.10
Toronto	05/04	8.500	AA+	114.6041	5.77	–0.01	–0.31	+0.10
Bell Canada	07/99	10.825	A+	109.4269	4.84	+0.02	+0.01	–0.04
Deutsche Bk	09/02	5.875	AAA	102.1093	5.38	+0.02	–0.19	–0.10
EURO YEN								
World Bank	03/02	5.250	AAA	117.5000	1.16	–0.06	–0.11	+0.01
Spain	03/02	5.750	AA	119.2500	1.26	–0.05	–0.11	+0.09
Cred Foncier	08/02	4.750	A	114.1275	1.67	–0.03	–0.10	+0.50
Italy	07/99	0.703	AA	100.6406	0.14	–	–0.02	–0.37

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Oct 13	Day's change %	Fri Oct 10	Accrued interest	xd adj. ytd		Low coupon yield Oct 13	Low Oct 10	Low Yr. ago	Medium coupon yield Oct 13	Medium Oct 10	Medium Yr. ago	High coupon yield Oct 13	High Oct 10	High Yr. ago
1 Up to 5 years (20)	120.21	0.18	119.99	2.43	8.21	5 yrs	6.55	6.63	6.89	6.68	6.76	6.95	6.71	6.78	7.03
2 5-15 years (20)	158.57	0.46	157.85	3.01	8.80	15 yrs	6.44	6.51	7.72	6.47	6.53	7.72	6.57	6.62	7.76
3 Over 15 years (4)	190.28	0.59	189.16	3.48	9.77	20 yrs	6.44	6.51	7.84	6.47	6.52	7.82	6.57	6.62	7.76
4 Irredeemables (4)	230.66	0.78	228.87	4.21	9.50	Irred.†	6.59	6.64	7.85						
5 All stocks (48)	151.36	0.39	150.77	2.82	8.90										

Index-linked							Inflation 5% Oct 13	Inflation 5% Oct 10	Inflation 5% Yr. ago	Inflation 10% Oct 13	Inflation 10% Oct 10	Inflation 10% Yr. ago
6 Up to 5 years (2)	210.43	0.13	210.16	1.06	5.22	Up to 5 yrs	3.18	3.22	3.09	2.42	2.45	2.38
7 Over 5 years (10)	211.23	0.26	210.64	1.18	5.21	Over 5 yrs	3.20	3.22	3.53	2.98	3.00	3.31
8 All stocks (12)	210.06	0.27	209.50	1.16	5.18							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 13	Oct 10	Oct 9	Oct 8	Oct 7	Yr ago	High*	Low*
Govt. Secs. (UK)	100.46	100.00	100.13	100.70	101.43	94.72	101.83	93.31
Fixed Interest	132.21	132.42	132.67	133.23	133.54	116.24	133.54	115.32

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. All Stocks, Over 15 yrs & Irrds recalculated to account for first interest payment on Treas 8% 2021. For further information please fax FTSE Intl 0171 448 1804.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Exch 15pc 1997		14.98	6.08	100⅛	—	104¼	100⅛
Treas 4⅝pc 1998‡‡		4.80	6.71	115⅛	—	115⅝	113⅜
Exch 9¾pc 1998		9.69	7.04	100⅝	–⅛	104⅛	100⅛
Treas 7¼pc 1998‡‡		7.24	7.01	100⅛	+⅛	104⅛	100⅛
Treas 15½pc '98‡‡		14.39	7.08	107⅞	—	116⅛	107⅞
Exch 12pc 1998		11.43	7.11	105⅛	+⅛	110⅞	105
Treas 9½pc 1999‡‡		9.24	7.10	102⅞	+⅛	106⅛	97⅞
Treas Flg Rate 1999‡‡		–	–	100⅛	—	100⅛	99⅞
Exch 12¼pc 1999		11.45	7.10	107	+⅛	112⅞	106⅞
Treas 10½pc 1999		9.99	7.08	105⅛	+⅛	109⅞	105⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Treas 10pc 2003		8.61	6.63	116⅛	+⅛	117⅞	111⅞
Treas 11½pc 2001-4		10.09	6.66	113⅞	+⅛	121⅛	113⅛
Treas 10pc 2004	☆	8.50	6.63	117⅞	+⅛	119⅛	113
Funding 3½pc 1999-4		3.91	5.39	89⅞	+⅛	90⅞	82⅛
Conv 9½pc 2004		8.18	6.54	116⅛	+⅛	118⅛	109⅞
Treas 6¾pc 2004‡‡		6.66	6.50	101⅛	+⅛	102⅞	94⅞
Conv 9½pc 2005		8.11	6.51	117⅛xd	+⅛	122⅞	110⅞
Exch 10½pc 2005	☆	8.46	6.56	124⅛	+⅛	125⅞	117⅛
Treas 12½pc 2003-5		9.88	6.63	129	+⅛	130⅞	124⅞
Treas 8½pc 2005‡‡		7.55	6.50	112⅛	+½	114⅛	104⅞
Conv 9¾pc 2006	☆	8.00	6.52	121⅞	+⅛	123⅞	113⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
Index-Linked (b)							
2½pc '99	☆	1.30	2.88	188½	+⅛	187⅞	179⅛
2½pc '01	(78.3)	2.41	3.17	192⅞	+⅛	193½	184⅞
2½pc '03	(78.8)	2.64	3.17	189⅞	+⅛	190⅞	180⅞
4⅜pc '04‡‡	(135.6)	2.70	3.16	122⅞xd	+¼	123⅞	117⅛
2pc '06	(69.5)	2.84	3.19	202⅞	+½	203⅞	189⅛
2½pc '09	(78.8)	2.88	3.16	183⅞	+½	185	169⅞
2½pc '11	(74.6)	2.98	3.18	191⅞	+⅞	192⅞	175⅛
2½pc '13	(89.2)	2.97	3.18	158⅞	+⅞	159⅞	144⅛
2½pc '16	(81.6)	3.00	3.19	170⅞	+½	171⅞	153⅛
2½pc '20	(83.0)	3.06	3.22	164⅞xd	+½	166⅛	148⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for February 1997: 155.0 and for September 1997: 159.3.

Other Fixed Interest

	Notes	Int	Red	Price £	+ or –	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ☆ Indicative price.

CURRENCIES AND MONEY

Yen weakened by Japanese gloom

MARKETS REPORT

By Simon Kuper

The yen slipped yesterday as the gloom over Japan's economy deepened and a ministry of finance official was quoted as saying that the Bank of Japan might have to cut interest rates.

The unnamed official was reported by a news service as saying that the Bank might have to take its responsibility if a fiscal stimulus package proved unachievable. Japan's current account surplus for August showed a 77 per cent year-on-year rise, but as that was lower than expected it failed to buoy the yen.

Weak economic data caused the Nikkei stock index to fall to its lowest level in two years. Japanese bond yields, already the lowest of any industrialised nation at well under 2 per cent, slipped further.

The yen dropped Y0.8 against the dollar and Y0.42 against the D-Mark to close in London at Y120.8 and Y69.02 respectively. However, trading was thin, with US markets closed for the Columbus Day holiday.

Nick Parsons, currency strategist at Paribas Capital Markets in London, forecast that with no key economic data due out, today could be almost as quiet. Foreign exchange trading has slowed down in recent weeks. Traders think that Tokyo and Washington are capping the dollar against the yen at about Y122, while the market has yet to decide a new trend for dollar against the D-Mark.

■ Mark Geddes, treasury economist at ABN-Amro in London, noted that over the last week US and German bond yields had risen, raising the spread against Japanese bonds. The US ten-year bond now yields 425 basis points more than its Japanese equivalent, up from about 395 basis points, while the yield spread of German over Japanese ten-year bonds has risen from 335 basis points to 360 basis points. Fears that Tokyo and US want to keep the dollar below Y122 to the yen are currently capping the US currency. But Mr Geddes said that the yield spreads suggest that the yen will remain weak, perhaps particularly against the D-Mark.

■ The lira rallied somewhat as the market grew more confident that Romano Prodi, the Italian prime minister who resigned last week, would manage to form a new government. The growing consensus is that he will assemble another centre-left coalition that will agree on a 1998 budget, keeping Italy on track to qualify for the start of European monetary union. A result should be known by tomorrow. The lira firmed L2.3 against the D-Mark to L982.6. Eurolira futures, which reflect the expected level of Italian interest rates, rose more sharply. They jumped about 15 basis points across the yield curve, pricing in lower rates.

■ The belief that the UK government plans to join Emu sooner rather than later has become a key influence on the pound.

Ernst & Young's ITEM Club produced a report which said sterling could prosper in the European exchange rate mechanism at a rate as strong as DM2.85 to the D-Mark. Previously, economists had thought that if the pound rejoined the ERM, as a prelude to entering Emu, it would do so at a rate of at most DM2.70.

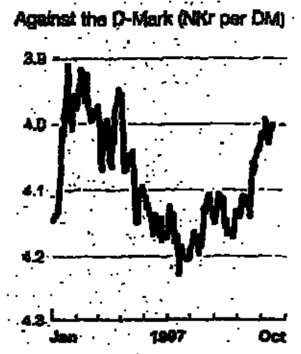
The report gave the pound a mild lift, but it ended the day virtually unchanged at DM2.841 and at $1.623 to the dollar.

An unexpected rise in UK producer prices during September, caused partly by the pound's fall, had little impact on the market yesterday. Jonathan Loynes, at HSBC Markets in London, said the outlook for pipeline inflation for UK manufacturers was "benign", and unlikely to change in coming months.

■ The Malaysian ringgit fell, hit by position squaring ahead of the country's budget on Friday and by fresh peculiar comments from Dr Mahathir Mohamad, the Malaysian prime minister. He seemed to suggest that certain Jewish groups were out to undermine Moslem states. The currency dropped to M$3.1390 to the US dollar, down from M$3.0500 on Friday. The ringgit had rallied last week from new, never-previously-expected lows around M$3.40 to the dollar.

Norwegian krone

Against the D-Mark (NKr per DM)



Source: Datastream/ICV

■ **Pound in New York**

Oct 13	--Latest--	-- Prev. close --
£ spot	1.6225	1.6218
1 mth	1.6203	1.6198
3 mth	1.6164	1.6158
1 yr	1.5997	1.5983

■ **OTHER CURRENCIES**

Oct 13	£	$
Czech Rp	53.1791 - 53.2622	32.7740 - 32.8050
Hungary	315.968 - 316.245	194.730 - 194.780
Iran	4870.80 - 4867.80	3000.00 - 3000.00
Kuwait	0.4928 - 0.4934	0.3037 - 0.3039
Poland	5.5071 - 5.5154	3.3940 - 3.3970
Russia	9506.81 - 9515.92	5859.00 - 5861.00
U.A.E.	5.9596 - 5.9635	3.6729 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Oct 13		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.0004	+0.0358	890 - 117	20.0905	19.9826	19.9102	3.3	19.8333	3.3	19.3278	3.4	102.7
Belgium	(BFr)	58.6589	+0.0939	083 - 094	58.9020	58.6083	58.4789	3.7	58.1089	3.8	56.3589	3.9	102.4
Denmark	(DKr)	10.8214	+0.0174	164 - 263	10.8732	10.8164	10.7899	3.5	10.7259	3.5	10.4344	3.6	104.5
Finland	(FM)	8.5201	+0.0179	139 - 263	8.5530	8.5139	8.4947	3.6	8.4432	3.7	8.2298	3.4	81.6
France	(FFr)	9.5390	+0.0075	338 - 443	9.5816	9.5271	9.506	4.2	9.449	3.8	9.1735	3.8	105.7
Germany	(DM)	2.8414	+0.0049	399 - 429	2.8553	2.8388	2.8321	3.9	2.8131	4.0	2.7262	4.1	103.6
Greece	(Dr)	447.408	-0.299	140 - 675	449.968	447.140	449.191	-4.8	451.815	-3.9	460.183	-2.9	65.5
Ireland	(I£)	1.1133	+0.0031	118 - 147	1.1147	1.1085	1.1128	0.5	1.1114	0.7	1.1005	1.1	86.3
Italy	(L)	2791.98	-1.73	022 - 373	2806.48	2785.63	2791.91	0.0	2792.09	0.0	2787.79	0.2	76.1
Luxembourg	(LFr)	58.6589	+0.0939	083 - 094	58.9020	58.6083	58.4789	3.7	58.1089	3.8	56.3589	3.9	102.4
Netherlands	(Fl)	3.2008	+0.0063	991 - 024	3.2157	3.1981	3.1906	3.8	3.1697	3.9	3.0737	4.0	101.8
Norway	(NKr)	11.3721	-0.0024	679 - 762	11.4452	11.3204	11.3386	3.4	11.2786	3.3	11.0096	3.2	100.7
Portugal	(Es)	288.879	+0.825	709 - 050	290.120	288.590	288.723	0.6	288.193	0.9	284.105	1.7	92.4
Spain	(Pta)	239.716	+0.342	609 - 822	240.850	239.530	239.401	1.6	238.651	1.8	234.261	2.3	77.3
Sweden	(SKr)	12.2720	+0.0012	641 - 798	12.3199	12.2548	12.2445	2.7	12.186	2.8	11.9295	2.8	86.8
Switzerland	(SFr)	2.3729	+0.0118	713 - 744	2.3827	2.3654	2.362	5.5	2.3394	5.6	2.2391	5.6	105.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.4
Ecu	-	1.4486	+0.0007	476 - 496	1.4548	1.4476	1.4453	2.7	1.4382	2.9	1.4041	3.1	-
SDR	-	1.180967	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6228	+0.0031	223 - 233	1.6233	1.6167	-	-	-	-	-	-	-
Brazil	(R$)	1.7823	+0.0021	816 - 829	1.7835	1.7792	-	-	-	-	-	-	-
Canada	(C$)	2.2407	+0.006	392 - 422	2.2422	2.2332	2.2338	3.7	2.2202	3.7	2.1693	3.2	84.9
Mexico	(New Peso)	12.5750	-0.0076	670 - 829	12.5925	12.5696	-	-	-	-	-	-	-
USA	($)	1.6231	+0.0021	226 - 236	1.6242	1.6200	1.6209	1.6	1.6169	1.5	1.5999	1.4	104.5
Pacific/Middle East/Africa													
Australia	(A$)	2.1927	-0.0075	912 - 941	2.2023	2.1904	2.189	2.0	2.1806	2.2	2.1437	2.2	93.1
Hong Kong	(HK$)	12.5539	+0.0139	492 - 585	12.5625	12.5323	12.5529	0.1	12.5485	0.2	12.4914	0.5	-
India	(Rs)	58.7687	+0.0697	300 - 474	58.8130	58.6760	58.9839	-4.0	59.3845	-4.1	61.0642	-3.9	-
Israel	(Shk)	5.6719	+0.0221	622 - 816	5.6744	5.6688	-	-	-	-	-	-	-
Japan	(Y)	196.119	+1.54	994 - 245	197.140	194.850	195.089	6.2	193.074	6.2	184.089	6.1	126.6
Malaysia	(M$)	5.1014	+0.1429	917 - 111	5.1303	5.0591	5.1056	-1.0	5.1138	-1.0	5.1323	-0.6	-
New Zealand	(NZ$)	2.5093	+0.003	075 - 110	2.5112	2.5070	2.5125	-1.5	2.5163	-1.1	2.5169	-0.3	108.5
Philippines	(Peso)	53.1891	-1.041	915 - 866	53.1694	53.1438	53.349	-3.6	53.5964	-3.1	54.6554	-2.8	-
Saudi Arabia	(SR)	6.0875	+0.0079	854 - 895	6.0911	6.0760	6.084	0.7	6.0756	0.8	6.0391	0.8	-
Singapore	(S$)	2.4996	+0.0086	972 - 020	2.5116	2.4898	2.495	2.2	2.4849	2.4	2.4367	2.5	-
South Africa	(R)	7.5726	+0.008	662 - 790	7.5792	7.5547	7.6334	-9.6	7.7512	-9.4	8.1882	-8.1	-
South Korea	(Won)	1483.68	+0.92	306 - 430	1485.29	1481.49	-	-	-	-	-	-	-
Taiwan	(T$)	46.2259	+0.0588	068 - 450	46.2548	46.1457	46.2094	0.4	46.1696	0.5	45.9719	0.5	-
Thailand	(Bt)	59.2432	+0.4837	438 - 426	58.8150	57.9830	59.5798	-6.8	60.0414	-5.4	61.0716	-3.1	-

† Rates for Oct 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	12.3223	+0.0057	191 - 255	12.3800	12.3150	12.2983	2.3	12.2493	2.4	12.0253	2.4	102.4
Belgium	(BFr)	36.1400	+0.01	200 - 600	36.2900	36.1140	36.065	2.5	35.9135	2.5	35.22	2.5	102.4
Denmark	(DKr)	6.6671	-0.0019	661 - 681	6.6981	6.6651	6.6554	2.1	6.6311	2.2	6.5247	2.1	103.8
Finland	(FM)	5.2493	+0.0041	471 - 515	5.2710	5.2483	5.2378	2.6	5.2142	2.7	5.1203	2.5	81.1
France	(FFr)	5.8770	-0.0032	755 - 785	5.9027	5.8717	5.8655	2.4	5.8416	2.4	5.7328	2.5	105.1
Germany	(DM)	1.7506	+0.0007	502 - 510	1.7587	1.7502	1.7468	2.6	1.7389	2.7	1.704	2.7	103.1
Greece	(Dr)	275.650	-0.55	570 - 730	277.330	275.560	276.945	-5.6	279	-4.9	286.15	-3.8	65.1
Ireland	(I£)	1.4580	-0.0021	565 - 594	1.4660	1.4558	1.4572	0.6	1.4563	0.5	1.4567	0.1	-
Italy	(L)	1720.15	-3.35	960 - 070	1728.67	1715.50	1721.92	-1.2	1724.93	-1.1	1729.35	-0.5	75.7
Luxembourg	(LFr)	36.1400	+0.01	200 - 600	36.2900	36.1140	36.065	2.5	35.9135	2.5	35.22	2.5	102.4
Netherlands	(Fl)	1.9720	+0.0012	716 - 724	1.9810	1.9712	1.9677	2.6	1.9592	2.6	1.9215	2.6	102.4
Norway	(NKr)	7.0064	-0.0108	060 - 068	7.0584	6.9707	6.992	2.5	6.9635	2.4	6.8518	2.2	99.8
Portugal	(Es)	177.980	+0.15	930 - 030	178.740	177.780	177.944	0.2	177.89	0.2	176.72	0.7	93.0
Spain	(Pta)	147.690	+0.015	670 - 710	148.370	147.630	147.645	0.4	147.47	0.6	146.295	0.9	76.9
Sweden	(SKr)	7.5608	-0.0093	583 - 633	7.5924	7.5487	7.5518	1.4	7.5324	1.5	7.4584	1.4	86.3
Switzerland	(SFr)	1.4619	+0.0053	614 - 624	1.4677	1.4588	1.4566	4.4	1.4459	4.4	1.4004	4.2	105.2
UK	(£)	1.6231	+0.0021	226 - 236	1.6242	1.6200	1.6209	1.6	1.6169	1.5	1.5999	1.4	99.8
Ecu	-	1.1205	+0.0009	200 - 209	1.1210	1.1155	1.122	-1.6	1.1252	-1.7	1.1407	-1.8	-
SDR†	-	0.72751	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0006	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0981	-0.0001	980 - 981	1.0981	1.0980	-	-	-	-	-	-	-
Canada	(C$)	1.3805	+0.0018	800 - 810	1.3810	1.3784	1.3774	2.7	1.3717	2.6	1.3511	2.1	84.8
Mexico	(New Peso)	7.7475	-0.015	450 - 500	7.7500	7.7450	7.856	-16.8	8.067	-16.5	8.9775	-15.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.3
Pacific/Middle East/Africa													
Australia	(A$)	1.3509	-0.0064	504 - 514	1.3521	1.3559	1.3503	0.5	1.3485	0.7	1.3401	0.8	93.9
Hong Kong	(HK$)	7.7345	-0.0017	340 - 350	7.7358	7.7330	7.735	-0.1	7.7359	-0.1	7.7382	0.0	-
India	(Rs)	36.2200	-0.005	950 - 450	36.2450	36.1950	36.3575	-4.6	36.6425	-4.7	37.855	-4.5	-
Israel	(Shk)	3.4945	+0.009	896 - 994	3.4994	3.4896	-	-	-	-	-	-	-
Japan	(Y)	120.830	+0.79	790 - 870	121.400	120.120	120.315	5.1	119.315	5.0	115.015	4.8	128.6
Malaysia	(M$)	3.1430	+0.084	380 - 480	3.1600	3.1200	3.1475	-1.7	3.1565	-1.7	3.1865	-1.4	-
New Zealand	(NZ$)	1.5460	-0.0002	454 - 466	1.5475	1.5454	1.5468	-0.6	1.5492	-0.8	1.5593	-0.9	-
Philippines	(Peso)	32.7700	-0.6855	200 - 200	32.8200	32.7200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7504	3.7512	-0.2	3.7522	-0.2	3.7569	-0.2	-
Singapore	(S$)	1.5400	+0.002	390 - 410	1.5470	1.5350	1.5383	1.4	1.5345	1.4	1.515	1.6	-
South Africa	(R)	4.6655	-0.0025	630 - 680	4.6695	4.6600	4.706	-10.4	4.7855	-10.3	5.088	-9.1	-
South Korea	(Won)	914.100	-0.65	000 - 200	914.800	914.000	-	-	-	-	-	-	-
Taiwan	(T$)	28.4800	-0.0015	770 - 830	28.4840	28.4770	28.491	-0.5	28.5	-0.3	28.5925	-0.4	-
Thailand	(Bt)	36.5000	+0.25	500 - 500	36.6000	35.7500	36.945	-14.6	37.65	-12.6	38.88	-6.5	-

† SDR rate per $ for Oct 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 10: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

October 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 21/32	3 21/32	3 21/32	4 1/16	4 5/16	6.00	2.75	-
France	3 5/16	3 15/32	3 1/2	3 5/8	4 1/4	3.30	-	4.75
Germany	3 1/16	3 1/4	3 3/8	3 1/2	4 1/4	4.50	2.50	3.30
Ireland	6 1/4	6 1/4	6 3/8	6	5 7/8	-	-	6.75
Italy	7 13/32	6 7/8	6 5/8	6 1/8	5 7/8	7.75	6.25	6.02
Netherlands	3 1/16	3 15/32	3 5/8	3 3/4	4 1/4	-	2.75	3.30
Switzerland	1 3/8	1 13/32	1 13/32	2	2 1/4	-	1.00	-
US	5 23/32	5 1/2	5 17/32	5 21/32	5 7/8	-	5.00	-
Japan	15/32	1/2	15/32	17/32	17/32	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 5/8	5 3/4	5 27/32	6 1/32	-	-	-
US Dollar CDs	-	5.43	5.47	5.52	5.82	-	-	-
ECU Linked Ds	-	4 3/4	4 21/32	4 5/8	4 11/16	-	-	-
SDR Linked Ds	-	3 19/32	3 21/32	3 25/32	3 31/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 13	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/2 - 3 3/16	4 1/32 - 3 29/32	4 1/32 - 3 29/32	4 1/16 - 3 15/16	4 1/8 - 4	4 5/16 - 4 3/16
Danish Krone	3 15/32 - 3 1/2	3 13/32 - 3 11/32	3 7/8 - 3 3/4	4 - 3 7/8	4 1/4 - 4 3/32	4 1/2 - 4 11/32
German Mark	3 3/8 - 3 1/16	3 13/32 - 3 5/16	3 1/2 - 3 13/32	3 5/8 - 3 17/32	3 3/4 - 3 21/32	4 1/16 - 3 15/16
Dutch Guilder	3 13/32 - 3 1/4	3 13/32 - 3 11/32	3 17/32 - 3 13/32	3 21/32 - 3 9/16	3 13/16 - 3 11/16	4 1/8 - 4 1/32
French Franc	3 7/16 - 3 5/16	3 1/2 - 3 3/8	3 17/32 - 3 7/16	3 5/8 - 3 1/2	3 3/4 - 3 21/32	4 3/32 - 3 31/32
Portuguese Esc.	5 7/16 - 5 13/32	5 13/32 - 5 7/16	5 7/16 - 5 13/32	5 9/32 - 5 7/32	5 5/32 - 5 1/8	5 1/16 - 5
Spanish Peseta	5 3/32 - 5	5 3/16 - 5 1/16	5 3/16 - 4 15/16	5 5/32 - 5 1/32	5 1/8 - 4 7/8	5 1/32 - 4 29/32
Sterling	7 - 6 7/8	7 3/16 - 7 1/32	7 3/16 - 7 1/16	7 5/16 - 7 3/16	7 15/32 - 7 5/16	7 5/16 - 7 7/16
Swiss Franc	1 5/8 - 1 1/8	1 7/8 - 1 5/8	1 13/32 - 1 13/32	1 7/8 - 1 3/4	2 - 1 7/8	2 5/16 - 2 3/16
Canadian Dollar	3 1/2 - 3 3/8	3 5/8 - 3 7/16	3 5/8 - 3 1/2	3 3/4 - 3 5/8	4 - 3 3/4	4 3/8 - 4 1/8
US Dollar	5 17/32 - 5 13/32	5 5/8 - 5 1/2	5 9/16 - 5 15/32	5 3/4 - 5 5/8	5 13/16 - 5 23/32	5 31/32 - 5 27/32
Italian Lira	7 11/16 - 6 11/16	7 - 6 7/8	6 7/8 - 6 13/16	6 11/16 - 6 5/8	6 13/32 - 6 11/32	5 13/16 - 5 11/16
Japanese Yen	1/2 - 3/8	1/2 - 15/32	17/32 - 7/16	1/2 - 7/16	9/16 - 17/32	19/32 - 15/32
Asian $Sing	2 - 1 7/8	3 1/16 - 2 15/16	3 9/16 - 3 7/16	3 13/16 - 3 11/16	3 21/32 - 3 17/32	4 1/8 - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.25	96.24	+0.01	96.27	96.23	15,568	40,188
Mar	95.91	95.90	+0.03	95.94	95.89	13,347	44,728
Jun	95.58	95.65	+0.03	95.69	95.58	9,531	28,272

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.23	96.23	+0.02	96.25	96.22	50599	326660
Mar	95.93	95.93	+0.02	95.96	95.92	55379	304308
Jun	95.65	95.66	+0.02	95.69	95.63	35462	258724
Sep	95.46	95.47	+0.02	95.51	95.45	15536	195836

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Oct	-	96.54	-	-	-	0	400
Nov	-	96.49	-	-	-	0	60
Dec	96.25	96.22	+0.01	96.25	96.25	2	5430
Jan	-	96.31	+0.01	-	-	0	150

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.61	93.73	+0.13	93.75	93.61	16177	105414
Mar	94.34	94.48	+0.16	94.49	94.34	23801	102397
Jun	94.80	94.90	+0.16	94.92	94.80	15337	89157
Sep	94.93	95.01	+0.18	95.02	94.90	6274	61056

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.95	97.89	-0.04	97.96	97.89	5744	84448
Mar	97.75	97.68	-0.04	97.77	97.71	4030	49573
Jun	97.54	97.47	-0.04	97.56	97.49	2413	26047
Sep	97.35	97.28	-0.04	97.37	97.32	718	17543

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	99.45	+0.02	-	-	0	n/a
Mar	-	99.43	+0.05	-	-	0	n/a
Jun	-	99.36	+0.08	-	-	0	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.38	95.39	+0.05	95.39	95.38	787	11571
Mar	95.30	95.30	+0.04	95.31	95.30	347	8922
Jun	95.25	95.24	+0.03	95.25	95.24	116	8109
Sep	95.20	95.19	+0.04	95.20	95.19	239	5642

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.32	1.03	1.44	0.09	0.05	0.04
9375	0.17	0.80	1.21	0.19	0.07	0.06
9400	0.07	0.60	0.99	0.34	0.12	0.09

Est. vol. total, Calls 7859 Puts 6219. Previous day's open int., Calls 248814 Puts 105197

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 13		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.26	4.844	1.898	4760	5.457	19.39	492.5	408.7	20.92	4.045	1.705	3.820	2.767	334.3	2.489
Denmark	(DKr)	54.21	10	8.815	2.626	1.029	2580	2.958	10.51	267.0	221.5	11.34	2.193	0.924	2.071	1.500	181.2	1.339
France	(FFr)	61.49	11.34	10	2.979	1.167	2927	3.355	11.92	302.8	251.3	12.87	2.488	1.048	2.349	1.702	205.6	1.519
Germany	(DM)	20.64	3.806	3.357	1	0.392	982.6	1.126	4.002	101.7	84.37	4.319	0.835	0.352	0.789	0.571	69.02	0.510
Ireland	(I£)	52.69	9.721	8.569	2.552	1	2508	2.875	10.22	259.5	215.3	11.02	2.131	0.898	2.013	1.458	176.2	1.301
Italy	(L)	2.101	0.388	0.342	0.102	0.040	100	0.115	0.407	10.35	8.586	0.440	0.085	0.036	0.080	0.058	7.024	0.052
Netherlands	(Fl)	18.33	3.381	2.980	0.888	0.348	872.3	1	3.553	90.25	74.89	3.834	0.741	0.312	0.700	0.507	61.27	0.453
Norway	(NKr)	51.58	9.518	8.388	2.499	0.979	2455	2.815	10	254.0	210.8	10.79	2.087	0.879	1.970	1.427	172.5	1.274
Portugal	(Es)	20.31	3.746	3.302	0.984	0.385	966.5	1.108	3.937	100	82.98	4.248	0.821	0.346	0.776	0.562	67.89	0.501
Spain	(Pta)	24.47	4.514	3.979	1.185	0.464	1165	1.335	4.744	120.5	100	5.119	0.990	0.417	0.935	0.677	81.81	0.604
Sweden	(SKr)	47.80	8.818	7.773	2.315	0.907	2275	2.608	9.267	235.4	195.3	10	1.934	0.815	1.826	1.323	159.8	1.180
Switzerland	(SFr)	24.72	4.561	4.020	1.197	0.469	1177	1.349	4.793	121.7	101.0	5.172	1	0.421	0.944	0.684	82.65	0.610
UK	(£)	58.66	10.82	9.539	2.841	1.113	2792	3.201	11.37	288.9	239.7	12.27	2.373	1	2.241	1.623	196.1	1.449
Canada	(C$)	26.18	4.829	4.257	1.268	0.497	1246	1.428	5.075	128.9	107.0	5.477	1.059	0.446	1	0.724	87.53	0.646
USA	($)	36.14	6.667	5.877	1.751	0.686	1720	1.972	7.006	178.0	147.7	7.561	1.462	0.616	1.381	1	120.8	0.892
Japan	(Y)	29.91	5.518	4.864	1.449	0.568	1424	1.632	5.799	147.3	122.2	6.257	1.210	0.510	1.143	0.828	100	0.739
Ecu	-	40.49	7.470	6.585	1.962	0.769	1927	2.210	7.851	199.4	165.5	8.472	1.638	0.690	1.547	1.121	135.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5732	0.5740	-	0.5774	0.5722	27,009	70,270
Mar	-	0.5767	-	-	-	10	2,546
Jun	-	0.5790	-	-	0.5790	1	2,617

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8400	0.8420	-	0.8407	0.8310	40,869	69,631
Mar	-	0.8523	-	-	0.8510	91	861
Jun	-	0.8633	-	-	-	1	163

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6896	0.6915	-	0.6903	0.6855	10,924	39,990
Mar	-	0.6980	-	-	0.6944	75	1,604
Jun	-	0.7040	-	-	-	35	265

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6176	1.6176	-	1.6198	1.6160	4,590	29,684
Mar	-	1.6110	-	-	-	3	253
Jun	-	1.6050	-	-	-	52	27

UK INTEREST RATES

LONDON MONEY RATES

Oct 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/8 - 6 3/4	7 1/8 - 7	7 1/8 - 7	7 3/8 - 7 1/4	7 1/2 - 7 3/8	7 5/8 - 7 1/2
Sterling CDs	-	-	7 1/16 - 7	7 7/32 - 7 5/32	7 11/32 - 7 9/32	7 15/32 - 7 13/32
Treasury Bills	-	-	7 1/16 - 7	7 1/8 - 7	-	-
Bank Bills	-	-	7 - 6 3/4	7 1/16 - 6 15/16	7 5/16 - 7 1/8	-
Local authority deps.	6 7/8 - 6 3/4	7 - 6 7/8	7 1/16 - 7	7 3/16 - 7 1/8	7 5/16 - 7 7/32	7 13/32 - 7 5/16
Discount Market deps	6 13/16 - 6 11/16	7 - 6 7/8	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on Oct 10. 6.6490pc. ECGD fixed rate Stg. Export Finance. Make up day Sep 30, 1997. Agreed rate for period Oct 26, 1997 to Nov 25, 1997, Scheme III 8.54pc. Reference rate for period Aug 30, 1997 to Sep 30, 1997, Schemes IV & V 7.294pc. Finance House Base Rate 7 1/2pc from Oct 1, 1997

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.54	92.55	+0.01	92.57	92.55	6711	129997
Mar	92.52	92.52	+0.03	92.55	92.51	7716	112631
Jun	92.54	92.55	+0.05	92.58	92.54	13423	86304
Sep	92.62	92.64	+0.06	92.68	92.62	7701	69909
Dec	92.75	92.78	+0.07	92.83	92.75	7890	63114

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9250	0.11	0.17	0.28	0.06	0.15	0.23
9275	0.02	0.07	0.16	0.22	0.30	0.36
9300	0	0.02	0.08	0.45	0.50	0.53

Est. vol. total, Calls 2213 Puts 0. Previous day's open int., Calls 199125 Puts 215832

EMS EUROPEAN CURRENCY UNIT RATES

Oct 13	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.768583	+0.000747	-3.77	6.13	25
Finland	5.85424	5.89137	+0.01056	0.63	1.49	-4
Spain	163.826	165.792	+0.197	1.20	0.92	-8
Portugal	197.398	199.782	+0.253	1.21	0.91	-8
Italy	1906.48	1929.92	-5.82	1.23	0.89	-9
Denmark	7.34555	7.48384	+0.00952	1.88	0.24	-13
Netherlands	2.16979	2.21344	+0.00286	2.01	0.12	-15
Germany	1.92573	1.96510	+0.00254	2.04	0.08	-20
Austria	13.5485	13.8319	+0.0176	2.09	0.04	-15
Belgium	39.7191	40.5515	+0.0445	2.10	0.03	-15
France	6.45863	6.59627	+0.00168	2.13	0.00	-16
NON ERM MEMBERS						
Greece	295.259	309.529	-0.354	4.83	-2.57	-
UK	0.793103	0.690707	-0.002974	-12.91	17.27	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.600	2.06	2.81	3.23	-	0.97	1.56
1.610	1.06	2.23	2.64	-	1.34	1.98
1.620	0.14	1.69	2.16	0.17	1.80	2.51

Previous day's vol., Calls 380 Puts 77 . Prev. day's open int., Calls 27,465 Puts 25,418

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
0.560	1.15	1.57	1.80	-	0.25	0.43
0.565	0.66	1.19	1.47	-	0.39	0.57
0.570	0.17	0.88	1.17	-	0.57	0.77

Previous day's vol., Calls 3,544 Puts 4,456 . Prev. day's open int., Calls 13,001 Puts 40,255

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.14	94.14	-	94.15	94.13	139,764	619,014
Mar	94.05	93.65	-	94.08	94.05	5,079	84,484

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	-	95.03	-	-	95.01	230	4,989
Mar	-	95.03	-	-	-	118	4,121

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Oct	PUTS Nov	PUTS Dec	PUTS Mar
9575	0.48	0.48	0.48	0.26	0	0	0	0.08
9600	0.23	0.24	0.25	0.10	0	0.01	0.02	0.17
9625	0	0.04	0.07	0.03	0.02	0.06	0.09	0.35
9650	0	0	0.01	0	0.27	0.27	0.28	0.57
9675	0	0	0	0	0.52	0.52	0.52	0.82

Est. vol. total, Calls 10357 Puts 30849. Previous day's open int., Calls 281217 Puts 302222

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.22	0.13	0.14	0.33	0.45	0.67
9825	0.03	0.06	0.07	0.39	0.63	0.85

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3125 Puts 2819

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	●Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	●Smith & Williamson Secs	7.00
●Henry Ansbacher	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	7.00	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	7.00	Unity Trust Bank Plc	7.00
Bank of India	7.00	Heritable & Gen Inv Bk	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	C. Hoare & Co	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00		
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00		
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00		
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
Duncan Lawrie	7.00	Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

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* In administration

COMMODITIES AND AGRICULTURE

Oil plunges on fears of overbought futures

MARKETS REPORT

By Gary Mead and Kenneth Gooding in London and Nikki Tait in Chicago

International oil prices plunged yesterday – with traders responding to fears that the futures markets were "overbought".

On the New York Mercantile Exchange crude oil fell 72 cents to $21.33 a barrel in early trading, and by late afternoon on London's International Petroleum Exchange the Brent November contract was 56 cents lower at $20.21 a barrel.

Analysts said New York fall was a response to Friday's report from the Commodity Futures Trading Commission, the US regulator, which showed that in the two weeks to October 7 "non-commercials" (predominantly investment funds) held 76,743 long positions – bets that prices will rise – against 20,848 short positions – bets that prices will fall.

Investment funds had become more heavily weighted in oil since prices started to rise in late September, following renewed jitters over tensions in Iraq.

In more fundamental terms, some analysts said they detected bullish indicators for crude oil in the short term. In its latest commodity markets report Merrill Lynch projects global oil demand for the final quarter of 1997 to be 3.2 per cent above the same period for 1996, and argues that "the pressure on available supply this winter could be much greater than currently anticipated".

On the London Metal Exchange's nickel market there was a brief flurry after the Tass news agency reported that Norilsk's Nadezhdha 76,000 tonnes a year smelter had stopped nickel and copper output.

Nevertheless, both metals ended trading below Friday's close. Three-month nickel was down $35 a tonne at $6,505 while copper was down $11 at $2,083 a tonne.

Jim Lennon, analyst at Macquarie, the Australian bank, said total closure of the smelter appeared implausible. "A closure of one furnace for relining may be possible, but Norilsk has spare capacity elsewhere to make the losses minimal," he added.

Grain prices moved higher on US future markets, as rain and high winds swept across the mid-west just as the harvest season for some crops was in full swing.

Corn futures rose about 3 cents for near-term contracts, with the December contract rising to $2.912 a bushel, as traders concluded that the weather could delay harvesting and hit yields.

Soyabeans also moved higher, with the November contract adding 18.6 cents to 719 cents a bushel. This was put down partly to technical buying, but a private forecast, which put the anticipated season-ending stocks much lower than last Friday's US Department of Agriculture figure, also contributed to the rally.

Wheat futures shared in the trend, with the December contract gaining about 5.6 cents, to 371 cents a bushel.

Jump in London silver business

By Kenneth Gooding, Mining Correspondent

There was a sharp rise in silver business in the London bullion market in September. Average daily silver turnover jumped by more than 19 per cent, from 263.3m ounces in August to 314.3m ounces, according to the London Bullion Market Association.

This was by far the highest level since the LBMA started collecting the statistics in October last year.

The average silver price in London also rose, from $4.50 a troy ounce in August to $4.73, which resulted in the daily value of silver turnover climbing by 25 per cent to $1.5bn.

This matched levels seen in the first quarter of this year when the average silver price was higher.

Chris Elston, chief executive of the LBMA, said the increase in silver business reflected a high level of physical demand and increased activity in the forward market.

Average daily business in gold bullion rose more modestly in September. Daily clearing turnover was up by 3.3 per cent from the August level of 33.2m ounces to 34.3m.

The average London price fell slightly, from $324.01 an ounce in August to $322.62. In value terms, therefore, average daily turnover rose from $10.7bn in August to $11.1bn in September.

As the association began collecting the statistics only in October last year there are no comparisons available for September 1996. However, last month's gold total was well below the record 40.3m ounces a day, worth $14bn, cleared in February – a month in which the average gold price tumbled by $25 an ounce and fell below $350.

Report warns on genetics

By Alison Maitland

Genetic engineering developments have produced alarming results that governments are largely ignoring, Greenpeace, the environmental organisation, says in a report today.

Mistakes include genetically modified bacteria that have become toxic to plants, killed beneficial soil fungi or escaped into sewer systems.

"It's like the genie in the bottle," says Doug Parr, Greenpeace UK's genetics campaign director, in the report. "Once it's out, you cannot put it back. Already there are too many cases of things going wrong."

The report is published before Thursday's meeting of European Union environment ministers, who will discuss Austria's request to ban maize genetically modified by Swiss biotechnology group Novartis to be resistant to the corn borer pest.

An antibiotic-resistant "marker" gene in the maize has raised concern about the transfer of antibiotic resistance to animals and humans. Greenpeace points to statements from the UK Labour party before it came to power that the maize should not be allowed into the UK "when it may pose a health threat to consumers".

The European Commission, following scientific advice, declared the maize safe last December. The UK government says it cannot break that ruling and there is no new scientific evidence to justify an EU-wide ban.

Further pressure will come tomorrow when the Consumers' Association calls for the statutory long-term monitoring of genetically modified foods. It will also demand reliable tests to distinguish modified foods from conventional ones, and say product liability should be extended to modified crops.

The 12 "mistakes" cited in the Greenpeace report include a large stock of oilseed rape seeds in Canada that had to be withdrawn earlier this year because they contained herbicide-resistant genes that had not been given government clearance.

In another case, a bacterium engineered to produce fuel from farm waste was found to inhibit the growth of wheat and to suppress beneficial soil fungi when it was added to soil.

Also, Dutch researchers found viable genetically engineered bacteria on dry laboratory coats before they went to the laundry. Washing would flush the bacteria into the sewage system.

Risks pay off for magnesium venture

Its Dead Sea plant could make DSM one of the big players, says Judy Dempsey

When Uri Zvi Ben-Noon started work on building Israel's first magnesium plant three years ago, he was aware of the risks.

It was far from certain how the imported Russian technology would perform in high temperatures by the Dead Sea, compared with the cold climate at home.

Nor was it clear if Mr Ben-Noon, chairman of Dead Sea Works, the potash production company of which Dead Sea Magnesium is an offshoot, could rely on the Swiss-made compressors.

Three years later, the Russian technology is working well while the compressors keep breaking down.

But Mr Ben-Noon, whose companies are owned by Israel Chemicals and indirectly by Israel Corporation, the holding company controlled by the Eisenberg family, has no qualms in defending a $420m investment in a magnesium plant located at one of the lowest sea levels in the world.

"You only have to look at the figures," says Mr Ben-Noon. "Instead of producing 25,000 tonnes a year, we can produce 30,000 tonnes. Sales capacity is higher than expected."

He adds that after the plant comes on stream next year, revenues could reach $130m by the end of the decade, helped by the car industry's increasing attraction to magnesium, a metallic element that is lighter and more environmentally friendly than steel.

Car makers are increasingly attracted to magnesium, which is lighter and more environmentally friendly than steel

This was one of the reasons why Volkswagen, the German vehicle manufacturer, took a 35 per cent stake in DSM, investing $100m.

Mr Ben-Noon says he expects VW will take between 25 per cent and 30 per cent of DSM's annual capacity. Other car manufacturers, including Chrysler and General Motors of the US, are looking at DSM's prospects.

The prospects, says Daniel Carasso, Israel analyst at UBS Global Research, are more than encouraging. "There is no reason why DSM cannot become one of the three big players in the market – joining Dow Chemical of the US and Norsk Hydro of Norway."

The world market for magnesium is about 300,000 tonnes a year, with Norsk Hydro selling 90,000 tonnes a year, a 30 per cent market share, and Dow Chemical selling 60,000 tonnes, a 20 per cent market share. With the DSM plant fully on stream, the worldwide magnesium shortage could be eased.

Mr Carasso and other analysts believe DSM has several advantages over its competitors. It has no storage problems since it rarely rains in this part of Israel.

"DSM can store large quantities outdoors, unlike its competitors. It can meet demand any time," said Martin Geifman, analyst at Zannex securities.

Above all, DSM has unlimited supplies of magnesium which comes from the Dead Sea, a closed salt-water sea at 400 metres below sea level which has underground salt-water wells.

Over the years, DSW built evaporation ponds to extract bromine, potash and magnesium chloride. On average, 300m cubic metres of Dead Sea water flows into the ponds each day and are evaporated in two stages.

The brine left after the first stage is pumped into a second set of ponds, where carnelite, magnesium's main raw material, precipitates. The carnelite is then separated into potash, magnesium chloride and salt.

"DSW produces 16m tonnes of carnelite a year," explained Mr Ben-Noon. "We need 16 tonnes of carnelite to produce one tonne of magnesium. The theoretical potential [for magnesium] from the existing ponds is 1m tonnes [a year]."

In a bid to build on DSM's unlimited capacity and market potential, Mr Ben-Noon is now lobbying Israel Corporation's shareholders to support expanding the plant, building another power station and developing a magnesium die casting plant which would double production and revenues.

He also aims to invest more in research and development to increase magnesium's use, especially in car engines.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1636.5-37.5	1644-45
Previous	1637-38	1644-45
High/low		1648/1639
AM Official	1631-2	1640-41
Kerb close		1640-41
Open int.	250,221	
Total daily turnover	159,299	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1432-37	1460-62
Previous	1442-47	1470-72
High/low		1470/1465
AM Official	1435-40	1460-65
Kerb close		1470-75
Open int.	5,325	
Total daily turnover	1,713	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	603-4	616-6.5
Previous	605-07	619-20
High/low		621/610
AM Official	603-4	615-6
Kerb close		609-10
Open int.	32,050	
Total daily turnover	11,155	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6420-30	6520-30
Previous	6430-40	6530-40
High/low		6590/6470
AM Official	6350-55	6475-80
Kerb close		6500-05
Open int.	53,221	
Total daily turnover	27,640	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5605-15	5650-60
Previous	5580-90	5630-35
High/low	5615/5610	5680/5640
AM Official	5615-20	5655-60
Kerb close		5645-50
Open int.	16,404	
Total daily turnover	4,523	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1303-04	1319-20
Previous	1304-05	1314-15
High/low		1320/1311
AM Official	1300-01	1314-5
Kerb close		1312-13
Open int.	80,476	
Total daily turnover	35,332	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2064-65	2094-95
Previous	2069-70	2098-99
High/low	2066	2108/2082
AM Official	2065-6	2096-7
Kerb close		2083-84
Open int.	150,148	
Total daily turnover	72,857	

■ LME AM Official £/$ rate: 1.6236
LME Closing £/$ rate: 1.6235

Spot: 1.6125 3 mths: 1.6065 6 mths: 1.6009 9 mths: 1.5953

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	93.10	-0.15	94.10	93.00	333	1,535
Nov	93.60	-0.15	94.80	93.60	240	2,583
Dec	94.15	-0.10	95.40	94.00	3,309	28,142
Jan	94.55	-0.10	95.80	94.70	17	1,061
Feb	94.65	-0.10	95.30	95.30	6	1,133
Mar	94.80	-0.10	95.80	94.70	217	5,612
Total					4,388	53,026

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	328.60-329.10		
Opening	329.20-329.50		
Morning fix	328.80	202.58	481.88
Afternoon fix	328.20	202.09	480.32
Day's High	329.25-329.55		
Day's Low	328.00-328.30		
Previous close	328.90-329.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....2.48 6 months 2.58
2 months ....2.46 12 months 2.89
3 months 2.41

Silver Fix	p/troy oz.	US cts equiv.
Spot	319.25	518.50
3 months	322.70	522.10
6 months	326.05	525.60
1 year	333.60	532.90

Gold Coins	$ price	£ equiv.
Krugerrand	327-329	201-203
Maple Leaf	-	-
New Sovereign	76-78	47-48

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	327.7	-1.2	328.3	328.3	4	146
Nov	328.4	-1.3	-	-	303	1
Dec	329.8	-1.4	332.2	328.6	31,220	92,487
Feb	331.0	-1.4	333.4	330.9	515	21,928
Apr	332.6	-1.4	333.6	332.7	76	5,991
Jun	334.4	-1.4	335.4	334.9	255	10,036
Total					32,753	179,268

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	434.4	+5.0	435.0	430.1	42	203
Jan	437.4	+5.0	438.0	433.5	604	12,389
Apr	432.4	+6.5	431.0	431.0	5	895
Jul	427.4	+6.5	-	-	1	15
Total					652	13,502

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	205.35	+0.35	207.00	203.50	439	3,657
Mar	201.35	+0.35	201.00	200.00	3	373
Jun	197.35	+0.35	-	-	-	113
Total					442	4,145

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	511.0	-5.0	-	-	2	10
Nov	512.9	-4.8	-	-	-	1
Dec	514.7	-4.8	521.0	514.0	7,270	71,495
Jan	516.1	-4.8	-	-	2	20
Mar	520.9	-4.8	526.0	520.0	756	18,964
May	523.7	-4.8	527.0	527.0	189	3,204
Total					8,435	103,748

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	21.36	-0.74	22.00	21.20	34,327	85,189
Dec	21.41	-0.72	22.03	21.20	27,451	101.2k
Jan	21.37	-0.62	21.75	21.20	14,654	48,104
Feb	21.27	-0.53	21.57	21.10	2,965	27,511
Mar	21.14	-0.48	21.39	21.07	2,028	14,816
Apr	21.04	-0.42	21.23	20.80	986	12,226
Total					85,831	448,395

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	20.18	-0.55	20.62	20.03	19,938	36,076
Dec	20.18	-0.56	20.57	20.04	20,213	62,651
Jan	20.14	-0.52	20.46	20.04	3,002	30,705
Feb	20.05	-0.45	20.34	19.94	732	13,754
Mar	19.90	-0.41	20.20	19.86	451	5,522
Apr	19.75	-0.37	19.76	19.65	545	3,139
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	58.50	-1.45	59.75	57.70	11,988	44,354
Dec	59.70	-1.44	60.60	58.90	5,209	39,919
Jan	60.40	-1.34	61.50	59.60	850	21,247
Feb	60.60	-1.29	60.80	60.00	589	11,211
Mar	59.75	-1.19	60.00	59.60	505	8,117
Apr	58.15	-0.89	58.70	58.05	265	5,261
Total					29,169	143,729

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	181.25	-4.25	184.00	179.75	5,869	35,662
Dec	182.50	-4.25	185.00	181.75	2,601	18,078
Jan	184.25	-4.25	186.50	183.25	855	14,868
Feb	184.00	-4.25	186.00	185.00	120	7,132
Mar	181.25	-3.75	183.25	183.25	150	5,182
Apr	178.25	-3.50	178.50	178.50	50	2,455
Total					25,461	95,864

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Nov	12.950	+0.380	12.950	12.700	280	1,290
Dec	15.450	+0.070	15.450	15.450	25	1,460
Total					695	11,840

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	3.030	-0.052	3.160	3.030	26,281	47,943
Dec	3.145	-0.041	3.250	3.135	12,208	38,450
Jan	3.115	-0.038	3.200	3.110	6,375	27,371
Feb	2.780	-0.025	2.855	2.780	2,580	19,101
Mar	2.525	-0.020	2.570	2.515	1,258	13,200
Apr	2.300	+0.035	2.345	2.290	882	8,259
Total					54,282	236,819

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	59.90	-1.34	61.00	58.85	10,082	35,125
Dec	58.75	-1.46	60.80	58.60	6,448	19,321
Jan	58.85	-1.55	59.85	59.10	2,016	13,482
Feb	60.10	-1.53	60.20	59.60	927	5,742
Mar	62.00	-	62.00	62.00	1,177	5,605
Apr	64.45	-	64.55	64.30	490	3,610
Total					21,707	85,099

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	86.95	-4.05	86.95	86.30	178	2,052
Jan	88.95	+0.70	89.00	88.25	151	2,866
Mar	91.00	+0.75	91.00	90.25	85	2,727
May	93.00	+0.75	93.00	92.25	65	1,915
Jul	95.00	+0.75	-	-	-	153
Total					564	9,713

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	371.25	+6.00	373.50	364.50	16,898	63,732
Mar	383.75	+5.75	385.00	377.00	4,040	26,631
May	390.50	+5.50	391.50	381.00	566	5,179
Jul	390.50	+3.25	391.50	386.00	1,574	11,893
Sep	395.00	+4.00	-	-	-	71
Dec	403.25	+2.25	405.50	400.00	89	2,975
Total					24,781	112,826

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	291.00	+2.75	295.00	287.75	87,927	205,021
Mar	300.00	+3.00	304.00	295.00	23,540	74,838
May	304.75	+1.75	308.50	301.50	4,889	19,710
Jul	308.00	+2.25	311.75	303.75	5,209	31,907
Sep	294.75	+1.25	297.00	292.00	702	2,262
Dec	291.75	+1.25	294.50	289.00	4,854	19,912
Total					139,277	367,899

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	79.25	-7.75	79.25	79.25	21	930
Jan	81.90	-0.10	-	-	-	1,060
Mar	83.75	-0.25	83.75	83.75	16	357
May	85.50	-0.10	-	-	-	23
Total					37	2,376

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	719.50	+19.25	729.00	695.00	63,178	93,099
Jan	724.50	+19.75	733.00	700.00	14,825	36,620
Mar	729.50	+17.75	741.00	706.00	6,233	17,146
May	736.00	+19.25	744.00	713.50	2,916	14,096
Jul	741.50	+20.00	750.00	717.50	4,032	12,460
Aug	735.50	+18.50	740.00	717.00	26	424
Total					107,491	179,922

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.59	+0.30	24.61	24.27	770	2,151
Dec	24.89	+0.23	24.99	24.52	14,339	54,692
Jan	25.14	+0.21	25.25	24.79	4,277	20,379
Mar	25.34	+0.22	25.47	25.00	2,302	11,067
May	25.55	+0.25	25.60	25.12	1,539	7,310
Jul	25.74	+0.34	25.75	25.30	1,220	7,295
Total					27,224	104,774

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	240.7	+9.1	243.5	230.5	2,881	6,636
Dec	236.0	+8.6	239.5	226.5	21,090	43,280
Jan	234.1	+8.5	237.5	224.5	4,860	17,442
Mar	230.0	+7.8	234.0	221.0	3,364	16,825
May	227.5	+7.4	231.0	219.0	3,093	16,171
Jul	228.4	+7.1	231.5	220.0	962	9,841
Total					42,352	116,761

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	57.0	-2.0	-	-	-	7
Mar	90.0	+4.0	-	-	-	-
Apr	113.5	+4.5	115.0	112.0	86	1,076
May	125.5	+4.5	-	-	-	22
Jun	135.5	+4.5	-	-	-	-
Total					88	1,105

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1430	+10	1430	1430	5	1,058
Nov	1520	+15	-	-	-	560
Dec	1523	+13	-	-	-	49
Jan	1518	+3	-	-	-	615
Apr	1518	+3	-	-	-	302
Total					16	2,629

	Close	Prev
BFI	1339	1328

PULP AND PAPER

■ PULPEX OMLX ($6; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	592.75	-3.25	598.00	592.00	80	349
Mar	611.75	-3.25	613.00	610.25	30	200
Total					40	493

FUTURES DATA

All futures data supplied by CMS.

Tea from The Tea Brokers' Association

There was good demand for tea. Landed: Assams sold well at around the last levels; East Africans were about steady, except for coloury medium Kenyas which appreciated. Offshore: Good competition with coloury liquoring teas dearer. Quotations for this sale Landed: best available 179p; good 157p; good medium 154p; medium 140p; low medium NQ. The highest price realised this week was 179p for an Assam FF.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1121	-11	1126	1117	1,360	47,153
Mar	1144	-10	1148	1139	901	51,996
May	1161	-10	1163	1157	104	23,188
Jul	1178	-9	1177	1173	80	9,128
Sep	1195	-9	1195	1192	102	17,201
Dec	1206	-9	1207	1203	653	17,560
Total					4,931	185,263

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1676	+5	1681	1659	7,133	45,538
Mar	1707	-	1713	1701	2,008	26,004
May	1727	+1	1730	1728	362	12,343
Jul	1745	+1	1749	1749	135	3,670
Sep	1762	+1	-	-	2	4,736
Dec	1779	+2	-	-	10	9,086
Total					4,659	112,738

■ COCOA (ICCO) (SDR's/tonne)

Oct 10	Price	Prev. day
Daily	1298.84	1310.59

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1582	-29	1625	1580	1,203	14,264
Jan	1601	-28	1635	1595	1,701	12,494
Mar	1617	-22	1650	1615	307	6,153
May	1627	-21	1652	1625	100	1,332
Jul	1640	-20	1659	1659	20	344
Sep	1650	-20	-	-	-	215
Total					4,370	34,832

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	167.90	+1.80	168.90	164.00	2,086	11,859
Mar	152.05	+1.05	153.00	149.50	784	6,792
May	147.25	+1.50	146.15	145.00	162	2,176
Jul	142.25	+1.50	140.90	140.40	216	2,366
Sep	137.25	+1.50	136.00	136.00	2	585
Dec	132.25	+0.75	131.50	131.00	32	436
Total					3,262	24,214

■ COFFEE (ICO) (US cents/pound)

Oct 10		Prev. day
Comp. daily	126.07	125.81
15 day average	126.85	127.12

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	303.5	-2.0	305.4	303.0	445	10,670
Mar	310.2	-1.5	310.7	309.4	437	14,103
May	313.8	-1.4	314.0	314.0	1	2,988
Aug	317.0	-2.2	318.0	318.0	4	2,039
Oct	313.0	-2.7	-	-	-	3,035
Dec	315.8	+1.8	-	-	-	124
Total					887	32,970

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.85	-0.09	11.97	11.82	8,394	91,889
May	11.85	-0.08	11.95	11.83	1,805	23,457
Jul	11.74	-0.08	11.82	11.73	1,205	17,870
Oct	11.71	-0.09	11.75	11.71	1,122	15,316
Mar	11.65	-0.07	11.65	11.64	136	3,248
May	11.60	-0.07	11.95	11.83	1,805	23,457
Total					12,862	151,831

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	71.39	-0.25	71.75	71.22	4,855	49,944
Mar	72.87	-0.16	73.20	72.72	1,111	15,766
May	73.69	-0.27	74.10	73.55	353	7,933
Jul	74.40	-0.28	74.68	74.30	469	7,332
Oct	75.55	-	75.55	75.55	100	762
Dec	75.70	-0.14	75.85	75.85	293	8,363
Total					7,181	90,432

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	66.55	-0.25	67.10	66.00	10,724	17,320
Jan	69.55	-0.40	69.85	69.10	5,523	12,144
Mar	72.55	-0.55	72.90	72.20	1,580	7,896
May	75.60	-0.20	75.75	75.30	247	2,037
Jul	78.60	-4.95	78.60	78.25	35	612
Sep	81.60	-4.25	-	-	3	328
Total					18,128	40,699

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 13	Oct 10	month ago	year ago
1885.4	1885.6	1907.4	1876.7

■ CRB Futures (Base: 1967 = 100)

Oct 10	Oct 9	month ago	year ago
246.75	246.08	-	-

■ GSCI Spot (Base: 1970 = 100)

Oct 10	Oct 9	month ago	year ago
207.33	204.60	194.60	208.48

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+2,150	to	741,400
Aluminium alloy	-180	to	49,220
Copper	-1,500	to	339,975
Lead	-75	to	120,125
Nickel	+96	to	62,232
Zinc	-100	to	444,500
Tin	-80	to	10,670

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	67.825	+0.425	67.875	67.500	2,152	8,485
Dec	67.200	+0.350	67.400	67.050	4,200	42,661
Feb	69.925	+0.325	70.075	69.650	1,981	19,360
Apr	73.475	+0.500	73.500	73.125	885	11,910
Jun	70.425	+0.475	70.475	70.200	251	8,302
Aug	70.100	+0.675	70.250	69.550	57	2,764
Total					9,593	94,436

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	67.750	-0.625	68.175	67.575	1,542	5,382
Dec	62.200	+0.425	62.250	61.600	3,405	19,871
Feb	61.975	+0.650	62.000	61.200	1,259	7,875
Apr	59.275	+0.425	59.450	58.850	405	2,676
Jun	65.050	+0.525	65.200	64.600	17	1,463
Jul	63.600	+0.150	64.000	63.600	4	845
Total					6,643	38,631

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	61.750	+0.900	62.200	60.400	1,208	6,413
Mar	61.900	+1.100	62.100	60.300	46	732
May	63.800	+1.200	63.800	62.250	16	142
Jul	64.900	+1.425	64.900	62.500	24	108
Aug	64.900	-	-	61.900	3	13
Total					1,270	7,431

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1500	149	156	4	19
1600	70	89	24	50
1700	23	45	77	103
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2000	113	149	35	63
2100	58	97	79	109
2200	26	59	146	170
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1550	42	122	10	71
1600	14	97	32	96
1650	3	75	71	124
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1000	125	163	4	19
1025	103	144	7	25
1050	83	127	12	33
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
2000	20	85	10	63
2050	4	61	34	90
2100	2	40	-	122

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$18.95-9.00	-0.69
Brent Blend (dated)	$20.07-0.11	-0.695
Brent Blend (Nov)	$20.17-0.21	-0.595
W.T.I.	$21.33-1.36w	-0.645
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$207-209	-8
Gas Oil	$184-185	-5
Heavy Fuel Oil	$97-99	-1
Naphtha	$198-200	-5
Jet fuel	$199-200	-4.5
Diesel	$190-192	-6.5
■ NATURAL GAS (Pence/therm)		
Bacton (Nov)	12.95-13.00	+0.35

Petroleum Argus. Tel. London (0171) 359 8792

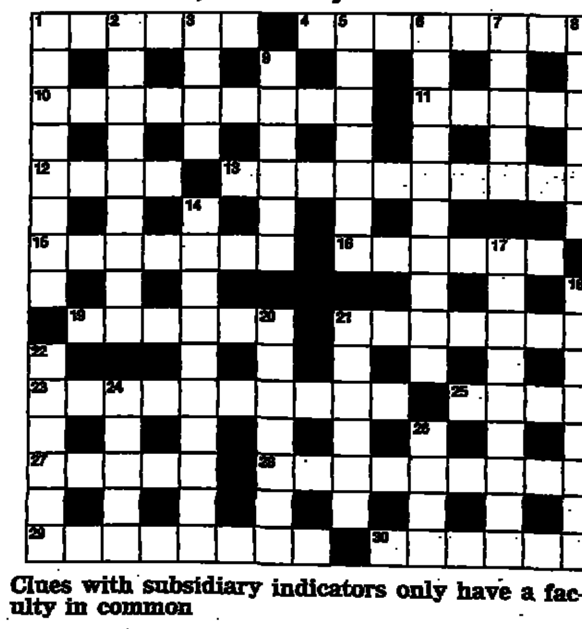
■ OTHER		
Gold (per troy oz)‡	$328.85	-0.30
Silver (per troy oz)‡	518.50c	-0.50
Platinum (per troy oz.)	$436.25	+6.25
Palladium (per troy oz.)	$205.00	+2.00
Copper	99.0c	-1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	17.41r	
Tin (New York)	264.5	
Cattle (live weight)	96.25p	-1.81*
Sheep (live weight)	105.10p	-1.02*
Pigs (live weight)†	70.48p	-0.97*
Lon. day sugar (raw)	$279.50	-2.70
Lon. day sugar (wte)	$301.00	-4.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	58.00p	
Rubber (Dec)♥	58.00p	
Rubber (KL RSS No1)	282.0z	-3.5
Coconut Oil (Phil)§	627.5z	+2.5
Palm Oil (Malay.)§	540.0z	
Copra (Phil)§	$403.0z	
Soyabeans (US)	224.5	+5.0
Cotton Outlook'A' Index	77.50c	-2.00
Wooltops (64s Super)	426p	-2

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Oct/Nov. w Nov. ♥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 485 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,505 Set by FETTLER



Clues with subsidiary indicators only have a facility in common

ACROSS

1 Act with some show of hesitation (6)
4 Push Lena roughly (4,4)
10 Constant and apt (9)
11 Wins at "vingt-et-un" (5)
12 Vary in speed (4)
13 Brawls about the country, performing (10)
15 More than half usual band taking excessive interest (7)
16 Prinny's rule, lacking king, met a need (6)
19 Date is entered in orderly records (6)
21 Body smell's unpleasant (7)
23 The lower we performed on this transport (3-7)
25 Small measure (4)
27 Gives breadth to inland sea.... (5)
28 .... once scant and stormy (9)
29 Serps end in turmoil – they give out (8)
30 Well known minor (6)

DOWN

1 Out-chat one cheekily? That really is gall (8)
2 See one uncurl in wild meadow flower (9)
3 Liza loses her head (4)
5 Olea are arranged in circular areas (7)
6 Fruit began rotting when transported in a vehicle (10)
7 Publicity about it entrances (5)
8 Non-U estates, banned in parts of the country (6)
9 Old boys yearn to be anything but square (6)
14 It shelters from blows near New Delhi (10)
17 Adviser has to cue in. A right difficult situation (9)
18 Harbours, illegally, let her on board (8)
20 Marks companion? (7)
21 Little fish taking directions for a bigger one (6)
22 Fag ends contain very little baccy (6)
24 Speak out for zero levy (5)
26 Snap leaving a sofa reveals his identity (4)

Solution to Saturday's prize puzzle on Saturday October 25.
Solution to yesterday's prize puzzle on Monday October 27.

Jump in London silver business

By Kenneth Gooding, Mining Correspondent

There was a sharp rise in silver business in the London bullion market in September. Average daily turnover jumped by more than 19 per cent, from 262.5m ounces in August to 314.7m ounces, according to the London Bullion Market Association.

This was by far the highest level since the LBMA started collecting the statistics in October last year.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aetna Master Fund (u) (x)

21 avenue de la Liberte, L-1931, Lux 00 352 2354 941

	Selling Price	+or -	Yield Gr's
Australian NAV	A$19.12	-0.19	-
Austrian Nat NAV	Sch71.17	-0.08	-
Belgo/Lux NAV	BFr1044.02	-19.77	-
Dutch Nat NAV	Dfl57.36	+0.42	-
French Nat NAV	FFr150.40	+0.07	-
German Nat NAV	DM24.34	-0.32	-
Hongkong Nat NAV	HK$138.63	-1.73	-
Italian Nat NAV	L16387	+150	-
Japanese Nat NAV	Y1121	-13	-
Spanish Nat NAV	Pta1665	+14	-
UK Nat NAV	£13.36	—	-
United States Dlr Res	$11.33	—	-

Prices quoted are "A" shares

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404646211

BAII Asset Management Ltd

10 Piccadilly, London W1V 0EE 0171 734 3700

Bank Von Ernst & Cie AG

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Frontrunner I (u)

GT Global

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Professional Investment Consultants				
[illegible]				
Royal Life International				
[illegible]				
Royal Skandia Life Assurance Ltd				
[illegible]				
BEA Associates				
[illegible]				
Julius Baer Bank & Trust Co Ltd				
[illegible]				
Banca Reig, S.A. (Principality of Andorra)				
[illegible]				
Banco do Brasil–BB Fund				
[illegible]				
Banc Internacional D'Andorra Banca Mora				
[illegible]				
Bank of America				
[illegible]				
Bank of Nova Scotia Trust Co (Cayman) Ltd				
[illegible]				
Dachan Investment Trust Co Ltd				
[illegible]				
Deutsche Bank A.G.				
[illegible]				
Discover Investment				
[illegible]				
Dragon Securities Ltd				
[illegible]				
Dresdner Bank Investment				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]

● MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

MEDIA - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TOBACCO

TRANSPORT

AIM - Cont.

SUPPORT SERVICES

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

OIL, INTEGRATED

WATER

AMERICANS

OTHER FINANCIAL

AIM

LEISURE & HOTELS

CANADIANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Toronto-Dom C$		21⅞	-⅜	23⅛	13⅞	6,392	2.2	
Trans Can Pipe C$	♦	11¼	-⅛	12⅛	10⅛	2,891	4.3	
Western Star Trucks C$		17⅛	-⅛	19⅛	14⅛	200.8	–	

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£23½	—	*£27⅛	£20¼	1,880	3.1	ф
Barlow	♣†	97	+⅛	98⅛	65⅛	1,461	2.0	14.9
Gold Flds Prop R	†	195¾	-¼	197	122	15.9	5.5	12.1
SA Brews		£18¼	-⅛	£22⅛	£13⅛	5,374	2.1	ф
Standard Bank		£27⅛	+⅛	£30	£21	3,334	1.9	ф
Tiger Oats	†	927	—	1109	780	1,461	2.0	18.0
Tongaat-Hulett		759½	-1	789	679¼	738.5	2.5	ф

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

TELECOMMUNICATIONS

MEDIA

RETAILERS, GENERAL

TEXTILES & APPAREL

PHARMACEUTICALS

PROPERTY

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. *Dividends and Dividend covers are published on Monday.*

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings'/formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♦ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend	F Yield based on prospectus or other official estimates for 1996-97.	FD Foreign Income Dividend
b Figures based on prospectus or other official estimates	G Assumed yield after pending scrip and/or rights issue.	R Forecast annualised yield, p/e based on prospectus or other official estimates
g Assumed dividend yield after rights issue.	H Yield based on prospectus or other official estimates for 1997	W Pro forma figures.
h Assumed dividend yield after scrip issue.	K Yield based on prospectus or other official estimates for 1995	Z Dividend yield to date
n Rights issue pending	L Estimated annualised yield, p/e based on latest annual earnings.	Abbreviations:
q Earnings based on preliminary figures.	M Yield based on prospectus or other official estimates for 1997-98.	xd ex dividend;
s Dividend yield includes a special payment	N Dividend is paid in whole or part as a	xc ex scrip issue,
t Indicated dividend yield, p/e ratio based on latest annual earnings.		xr ex rights;
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings		xa ex all
z Dividend yield includes a special payment		xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Bid activity puts equities back on buy tack

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

It was the bluest of blue sky days for London's equity market yesterday, with the FTSE 100 index recouping over two-thirds of the ground lost last week thanks to a barrage of takeover activity.

The sudden burst of deals involved confirmation of merger talks between BAT and Zurich Group, the Swiss insurance company, merger proposals for Reed Elsevier and Wolters Kluwer of Holland, and a hostile tilt at Redland, the building materials group by Lafarge of France.

More good news for the market came with a resolution to the Grand Metropolitan/Guinness/LVMH impasse which had threatened the tie-up between the two UK groups.

And there was a smaller bid, for Peek, the electronics company, from Thermo of the US.

The new deals alone were valued in excess of £40bn. Predictably strong responses by shares in all of the companies involved added over 22 points to the FTSE 100 index. More important, the sudden flurry of bids reawakened the market to the potential of more big deals being done in the short and medium term.

There were other mega-mergers announced in Europe, including a deal involving two of the Scandinavian banks, Nordbank of Sweden and Merita of Finland, and a massive insurance offer by Generali of Italy for AGF of France.

Those also helped to light the blue touch paper in the market, especially in the financial sectors *on talk of a substantial restructuring* in the UK and across Europe.

As the dust settled after a frantic session, Footsie regained the 5,300 level lost only last week, finishing with a gain of 72.8, or 1.5 per cent, at 5,300.1.

The FTSE 250 index was given a big boost by the bid for Redland, and ended the session 45.7 higher at 4,920.0. The SmallCap gained 8.3 at 2,387.0 while the All-Share index moved up 30.5 to 2,486.47.

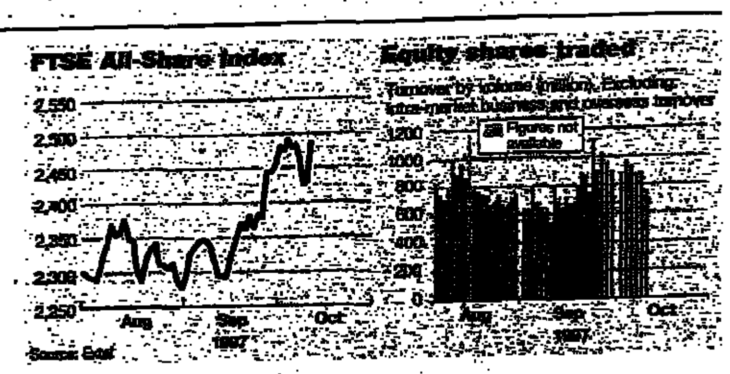
The FTSE 100's storming performing erased much of the gloom that descended on the market last week when confidence was jolted by a series of *damaging* events.

Alan Greenspan, chairman of the US Federal Reserve, warned that the US economy was on an "unsustainable track" which the markets interpreted as a warning of higher US interest rates in the near future. And the Bundesbank *caused* more problems by *hoisting* its repo rate and triggering rate rises across much of Europe.

Helping London finish only just below the best levels of the day was a positive opening by Wall Street where the Dow Jones Industrial Average posted an early 50-points plus gain.

In its regular monthly survey carried out by Gallup, Merrill Lynch said that over three-*quarters* of UK fund managers believed Britain will participate in European Monetary Union before the next general election. The survey also revealed that more UK fund managers are buyers of US stocks than sellers, for the first time in three years.

Turnover in equities was 680m shares.



Indices and ratios

FTSE 100	5300.1	+72.8	FT 30	3421.2	+54.5
FTSE 250	4920.0	+45.7	FTSE Non-Fins p/e	20.86	20.57
FTSE 350	2546.9	+32.8	FTSE100 Fut Dec	5350.0	+44.0
FTSE All-Share	2486.47	+30.54	10 yr Gilt yield	6.51	6.58
FTSE All-Share yield	3.13	3.17	Long gilt/equity yld ratio	2.10	2.09

Best performing sectors

1 Tobacco .... +10.2
2 Insurance .... +3.8
3 Alcoholic Beverages .... +3.8
4 Building Mats & Merchs .... +3.4
5 Media .... +2.7

Worst performing sectors

1 Distributors .... -0.3
2 Gas Distributors .... -0.1
3 Textiles & Apparel 0.2
4 Banks: Retail 0.3
5 Water 0.3

Bid news sparks insurers

By Peter John, Martin Brice, Joel Kibazo and Alexander Stevenson

International moves within insurers sent the sector flying.

BAT Industries confirmed weekend press stories that it is finally to hive off its financial services operations and merge them with Zurich, the Swiss group.

And, more significantly, Assicurazzione Generali made a *surprise* FFr41.4bn bid for AGF of France. It is the first hostile bid for a European insurer and raises the temperature within the industry. Specifically, it is seen as putting pressure on Allianz of Germany to reassert its pre-eminent position.

BAT lifted 58 to 609p with investors delighted that the demerger will unlock previously hidden value.

Among the life stocks, Prudential rose 29½ to 698p and Legal & General 13 to 505p. In the composites, Royal & Sun Alliance rose 36½ to 640p, Guardian Royal Exchange 17 to 342p and General Accident 43½ to £11.29.

Steven Bird, insurance analyst with Merrill Lynch, commented: "You certainly get the sense there is going to be more corporate activity."

Tobacco stocks were all sharply higher. Imperial Tobacco lifted 20½ to 391½p with additional help from Morgan Stanley. The US broker published a recommendation with a 440p share price target. Gallaher jumped 34 to 329p.

Reed International, the UK arm of Reed Elsevier, surprised the market with the announcement of a well-kept secret and the shares shot forward 18 per cent.

News of a proposed merger between Reed Elsevier and Wolters Kluwer, the Dutch specialist publisher, sent Reed shares up 97 to 629p, back towards the closing peak achieved in August.

Rumour denied

The £17.5bn deal, with Reed as the dominant partner, had been rumoured about six months ago. But the stories were shrugged off then by the companies.

And any suggestions of corporate activity were subsequently overshadowed by revelations by the company of problems within Reed's Travel Group. Advertising circulation figures had been inflated to enable the company to charge higher revenues.

After yesterday's announcement some dealers wondered whether the Travel Group announcement had been made in order to clear the decks for the Kluwer move.

In any event, the City applauded the merger. Lorna Tilbian of Panmure Gordon said: "It gives Reed Elsevier a commanding position in professional and scientific publishing. The group will be the publisher with the big presence in North America and Europe."

The news gave a boost to Pearson, which owns the Financial Times, and EMI. Both companies have attracted rumours of corporate activity in the past and the prospect of further consolidation within the sector helped Pearson rise 24½ to 823½p and EMI 10 to 582½p.

The move on Redland by Lafarge of France made Redland's shares the most heavily traded in the market, with some 21m dealt as they rose 79 to 336½p, a long way past the 320p offered.

While the possible interest of Lafarge in the aggregates side of Redland via a trade sale had been mentioned before the move, the bid raised eyebrows among analysts. Some took the view that RMC might try to stand in the way of Lafarge, but others dismissed the idea since accounting rules make it more attractive for a non-UK company, taking the view that Lafarge might have a clear run if it increased the price.

Robin Hardy at Panmure Gordon said: "It is not likely that a UK bidder would come in, although another international cement company might be interested."

The bid was seen to represent a growing trend towards pan-European consolidation in the sector, which powered price rises in other building materials companies to give the sector one of the biggest rises in the market yesterday – 4 per cent.

Aggregate Industries rose 3 to 56½p in volume of 7.7m, Blue Circle was ahead 9 at 396½p in volume of 2.1m, and Hanson was 10 higher to 309p in 3.2m traded.

Amey, believed to be the preferred bidder for a £100m, 5-year contract in Railtrack's Great Western region, rose 6½ to 455p.

Premier Farnell shed 24½ to 526½p after weak interim figures that were said to prompt downgrades.

Analysts were said to be knocking about £15m off the full-year estimate, bringing it down to £145m. However, volume in the shares was not notable.

Electronic equipment company Peek rose 36½ to 78½p following a bid by Therma Power, of the US.

DBS bounces back

DBS Management, the independent financial adviser, bounced back after it announced its intention to absorb costs incurred in connection with its Pensions Review. These costs were previously expected to be passed onto members. The shares rose 18½ to 172½p as DBS also released figures showing an increase in turnover for the first half.

Selected banks were out of favour as investors moved away from a sector that has outperformed and sought out stocks with exposure to the current speculative froth.

Halifax fell 11½ to 730½p on talk, largely disregarded, that the former building society is considering a rights issue to fund an acquisition. And HSBC was off 17 at £20.37 in the wake of weakness in Hong Kong's Hang Seng index.

In the drinks sector, the prospect of a merger between Guinness and Grand Metropolitan increased yesterday after the two groups resolved their differences with French group LVMH.

Shares in Guinness advanced 28½ or nearly 5 per *cent to 605½p while those in* GrandMet put on 21 to 604p, after the dispute was resolved with a distribution agreement and a payment of £250m by Guinness to LVMH.

The French luxury products group, which has stakes of just over 11 per cent in both the UK groups, has been blocking the proposed merger but yesterday the companies said they now expected the merger of Guinness and GrandMet into GMG Brands to go ahead.

Imperial Tobacco lifted 20½ to 391½p. Morgan Stanley published a recommendation with a 440p share price target. Therapeutic Anti-*bodies rose 11½ to 242½p* after announcing a $23m licensing deal in the US.

FT 30 INDEX

	Oct 13	Oct 10	Oct 9	Oct 8	Oct 7	Yr ago	*High	*Low
FT 30	3421.2	3366.7	3359.7	3387.8	3402.0	2846.7	3407.3	2688.8
Ord. div. yield	3.32	3.35	3.35	3.33	3.31	3.98	4.22	3.31
P/E ratio net	22.18	21.94	21.92	22.11	22.20	17.32	22.20	15.80
P/E ratio nil	21.87	21.64	21.62	21.81	21.90	17.18	21.90	15.71

FT 30 since compilation: high 3407.3 03/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3382.2	3405.4	3417.6	3414.5	3419.8	3421.7	3421.6	3421.7	3420.0	3422.5	3382.2

	Oct 13	Oct 10	Oct 9	Oct 8	Oct 7	Yr ago
SEAQ bargains	53,689	45,267	46,990	51,667	48,716	40,879
Equity turnover (£m)†	-	2629.2	3010.7	2905.6	2927.6	1277.7
Equity bargains†	-	44,566	48,515	47,903	50,679	36,323
Shares traded (m)†	-	729.7	817.8	751.3	879.1	451.5

†Excluding intra-market and overseas turnover but including Crest turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	965	Total Highs	173	Total contracts	35,118
Total Falls	551	Total Lows	50	Calls	17,512
Same	1,543			Puts	17,606

Oct 13 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5344.0	5350.0	+44.0	5412.0	5340.0	8644	73015
Mar	5407.0	5398.0	+44.0	5407.0	5407.0	20	1956

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4947.5	+45.0	-	-	0	8651

■ FTSE 100 INDEX OPTION (LIFFE) (*5299) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

Calls 4,840 Puts 8,886 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	453.4	180½	152½	Aggreko	173½	-½	W3.5	2.0	2.5	24.3
-	F.P.	0.74	17½	16½	†Buckland Inv	17½		-	-	-	-
-	F.P.	0.08	12	8	†Buckland Inv Wrt	10		-	-	-	-
-	F.P.	95.5	95½	94	Cairngrm Demot IT	95½	+1	-	-	-	-
-	F.P.	-	19½	15½	Cairngrm Wrts	19	+1½	-	-	-	-
-	F.P.	3.38	3¼	2½	†Cambury Inv	2½		-	-	-	-
-	F.P.	0.68	1½	½	†Cambury Inv Wrts	¾		-	-	-	-
-	F.P.	127.2	174	155½	Creative Publish	158	-½	LW7.0	1.4	5.5	16.1
100	F.P.	8.43	155	109½	†Computerland UK	140½		M1.45	4.6	1.3	21.0
§134	F.P.	7.08	147½	134½	†I S Solutions	147½		-	-	-	49.9
155	F.P.	17.5	178½	162½	Latchways	174½		-	-	-	-
§115	F.P.	15.0	154½	140	†NSB Retail Sys	154½	+2	L1.15	1.8	0.9	60.0
*	F.P.	2,238	504½	450	Northern Rock	504	+6	L9.05	2.8	2.2	19.9
70	F.P.	28.1	62½	53	Nott'ham Forest	62	+1	-	-	-	-
§245	F.P.	143.7	269½	245	SHL Group	269½	+3	LW4.5	-	2.1	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Oct 10	% chg on day	Oct 9	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1524.63	+0.8	1512.38	1918.38	1.95	-	1995.11	1270.14
■ Regional Indices								
Africa (15)	1508.34	-1.1	1525.13	2518.60	5.06	25.85	2518.60	1224.90
Australasia (6)	1586.65	+0.3	1581.21	2105.93	2.57	18.40	2218.00	1336.10
North America (12)	1539.49	+1.5	1516.66	1725.46	0.87	57.17	1839.77	1244.23

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 13	Day's chge%	Oct 10	Oct 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5300.1	+1.4	5227.3	5217.8	4038.7	3.07	2.49	2.06	19.77	128.25	2250.25
FTSE 250	4920.0	+0.9	4874.3	4864.6	4443.5	3.41	2.79	1.78	20.61	125.33	2072.54
FTSE 250 ex IT	4937.1	+0.9	4890.8	4879.9	4477.1	3.53	2.89	1.82	19.47	130.10	2088.63
FTSE 350	2546.9	+1.3	2514.1	2509.4	2008.1	3.18	2.55	2.00	19.92	62.27	2238.34
FTSE 350 ex IT	2549.5	+1.3	2516.4	2511.5	-	3.15	2.57	2.01	19.69	30.29	1149.17
FTSE 350 Higher Yield	2478.9	+1.6	2439.7	2432.1	1905.0	4.15	3.44	1.81	16.65	77.50	1852.60
FTSE 350 Lower Yield	2621.1	+1.1	2593.8	2591.6	2118.3	2.29	1.81	2.30	23.80	47.40	1879.54
FTSE SmallCap	2386.95	+0.3	2378.67	2376.06	2182.38	3.09	2.48	1.62	25.08	54.54	2042.86
FTSE SmallCap ex IT	2370.16	+0.3	2362.23	2359.22	2177.60	3.39	2.68	1.68	22.83	58.75	2046.77
FTSE All-Share	2486.47	+1.2	2455.93	2451.49	1980.98	3.13	2.55	1.98	20.19	60.52	2217.71
FTSE All-Share ex IT	2490.14	+1.3	2459.13	2454.44	-	3.16	2.57	2.00	19.82	29.73	1142.51

■ FTSE Actuaries Industry Sectors

	Oct 13	Day's chge%	Oct 10	Oct 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	5089.94	+0.6	5059.89	5072.82	3973.21	3.05	2.42	1.85	22.14	128.19	2297.61
12 Extractive Industries(5)	4031.38	+1.3	3980.18	3997.77	4261.53	3.51	2.48	1.88	18.95	139.64	1242.57
15 Oil, Integrated(3)	5484.63	+0.5	5459.59	5471.21	4114.54	3.14	2.54	1.82	21.83	137.84	2546.42
16 Oil Exploration & Prod(12)	3916.04	+0.8	3884.27	3898.85	2944.77	1.46	1.21	2.32	36.91	52.61	2408.61
20 GEN INDUSTRIALS(258)	2198.85	+1.2	2172.86	2162.22	2098.08	3.57	2.99	1.95	17.99	59.71	1267.55
21 Building & Construction(35)	1440.63	+0.7	1431.31	1425.91	1215.79	3.18	2.56	2.29	17.21	38.83	1265.62
22 Building Matls & Merchs(30)	1924.94	+3.4	1861.28	1842.17	2025.53	4.12	3.35	1.89	16.05	57.24	1025.97
23 Chemicals(26)	2713.24	+0.3	2704.56	2699.97	2485.32	3.75	3.12	1.64	20.40	79.41	1360.85
24 Diversified Industrials(13)	1538.90	+1.1	1521.54	1514.88	1514.24	4.46	4.16	2.60	10.75	61.46	927.75

■ Hourly movements

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY OCTOBER 10 1997								THURSDAY OCTOBER 9 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	232.20	-1.1	212.37	176.19	211.24	209.62	-1.2	3.64	234.85	214.00	179.81	212.33	212.28	243.87	209.48	209.48
Austria (24)	208.06	-1.0	190.29	157.87	189.28	189.22	-0.4	1.73	210.24	191.57	160.97	190.08	190.01	213.59	175.14	179.62
Belgium (27)	251.10	-1.8	229.66	190.53	228.44	223.73	-1.1	3.09	255.73	233.02	195.79	231.20	226.32	261.11	215.57	215.57
Brazil (30)	301.58	0.4	275.83	228.84	274.37	609.64	0.5	1.20	300.35	273.68	229.96	271.54	606.82	322.44	178.94	185.31
Canada (123)	228.48	-0.8	208.97	173.37	207.86	228.10	-0.5	1.66	230.31	209.86	176.33	208.22	229.22	233.66	175.17	175.17
Denmark (32)	417.47	-0.9	381.82	316.77	379.80	378.45	-0.2	1.35	421.23	383.82	322.50	380.82	379.31	428.36	327.98	328.93
Finland (28)	340.61	-0.2	311.53	258.45	309.87	374.94	0.2	1.47	341.27	310.97	261.28	308.54	374.32	349.43	211.71	211.71
France (83)	237.82	-0.9	217.51	180.45	216.36	219.36	-0.2	2.40	239.89	218.58	183.66	216.88	219.87	248.23	197.65	197.65
Germany (59)	236.09	-1.8	215.93	179.14	214.78	214.78	-1.2	1.33	240.38	219.04	184.04	217.33	217.33	243.87	178.69	178.69
Hong Kong, China (66)	491.64	0.0	449.66	373.05	447.27	488.31	0.0	3.24	491.70	448.04	376.45	444.54	488.36	580.03	439.95	462.61
Indonesia (27)	134.48	7.0	122.99	102.04	122.34	281.32	2.6	2.41	125.65	114.49	96.20	113.60	274.41	254.90	117.56	202.63
Ireland (17)	384.64	-0.5	351.80	291.86	349.93	371.20	-0.3	2.61	386.55	352.22	295.95	349.47	372.17	393.57	303.65	304.64
Italy (53)	108.56	0.8	99.29	82.37	98.76	139.73	1.3	1.70	107.74	98.18	82.49	97.41	137.89	115.27	75.44	77.46
Japan (484)	118.59	0.9	108.46	89.98	107.88	89.98	0.0	0.88	117.53	107.09	89.98	106.25	89.98	145.08	107.57	142.48
Malaysia (107)	319.52	2.2	292.23	242.45	290.68	378.43	1.1	1.89	312.49	284.74	239.25	282.52	372.25	660.85	277.73	569.58
Mexico (27)	1854.42	0.2	1696.06	1407.11	1687.05	15738.67	0.1	1.54	1849.72	1685.45	1416.17	1672.29	15725.04	1898.64	1136.59	1271.06
Netherlands (19)	420.11	-1.3	384.23	318.77	382.19	377.89	-0.7	2.21	425.73	387.92	325.94	384.89	380.55	440.67	307.05	307.05
New Zealand (14)	95.31	0.8	87.17	72.32	86.71	78.25	0.5	3.92	94.57	86.17	72.41	85.50	77.86	96.47	83.03	85.92
Norway (41)	367.63	0.4	336.23	278.95	334.45	350.15	0.2	1.78	366.06	333.55	280.26	330.95	349.57	387.63	261.80	261.80
Philippines (22)	99.44	4.3	90.94	75.45	90.46	165.78	2.1	1.28	95.30	86.84	72.97	86.16	162.34	214.07	87.66	186.60
Singapore (42)	289.98	1.8	265.22	220.04	263.81	205.53	2.3	1.54	284.90	259.60	218.12	257.57	200.94	448.01	278.20	383.31
South Africa (43)	338.53	0.0	309.62	256.88	307.98	345.40	0.0	2.47	338.41	308.36	259.09	305.95	345.31	370.12	301.48	350.15
Spain (33)	262.97	0.2	240.51	199.54	239.23	294.19	0.8	2.28	262.32	239.02	200.83	237.16	291.84	277.33	182.12	182.36
Sweden (49)	523.74	-1.4	479.01	397.40	476.47	588.93	-0.9	1.76	530.88	483.73	406.45	479.96	592.27	538.94	390.24	391.28
Switzerland (33)	315.49	-1.1	288.55	239.39	287.02	284.90	-0.5	1.17	318.99	290.66	244.22	288.39	286.26	329.59	231.69	247.88
Thailand (39)	40.17	2.9	36.74	30.48	36.55	56.52	2.0	4.96	39.04	35.57	29.89	35.30	55.38	129.84	37.40	117.87
United Kingdom (213)	332.90	-0.2	304.47	252.60	302.85	304.47	0.2	3.26	333.55	303.93	255.37	301.55	303.93	337.99	252.17	252.17
USA (634)	393.80	-0.4	360.17	298.81	358.26	393.80	-0.4	1.58	395.30	360.20	302.65	357.38	395.30	399.82	282.92	282.92
Americas (814)	360.23	-0.4	329.48	273.34	327.72	303.37	-0.4	1.57	361.61	329.50	276.85	326.93	304.49	365.75	259.03	259.03
Europe (711)	289.29	-0.7	264.59	219.51	263.18	271.40	-0.2	2.34	291.36	265.49	223.07	263.42	271.96	296.25	220.39	220.39
Nordic (150)	454.82	-0.9	415.98	345.11	413.77	445.58	-0.5	1.65	459.00	418.24	351.42	414.98	447.93	464.93	332.06	332.06
Pacific Basin (877)	134.35	0.7	122.88	101.94	122.22	103.05	-0.0	1.42	133.37	121.52	102.11	120.58	103.06	160.86	127.16	157.76
Euro-Pacific (1588)	199.01	-0.1	182.02	151.01	181.05	166.18	-0.1	1.98	199.30	181.60	152.59	180.19	166.39	209.12	173.55	183.73
North America (757)	383.57	-0.4	350.81	291.05	348.96	382.75	-0.4	1.58	385.11	350.91	294.84	348.17	384.23	389.57	276.41	276.41
Europe Ex. UK (498)	259.44	-1.0	237.28	196.86	236.03	247.14	-0.4	1.82	262.07	238.80	200.65	236.94	248.20	267.07	198.34	198.34
Pacific Ex. Japan (393)	270.97	0.2	247.83	205.61	246.52	250.09	0.0	3.09	270.37	246.36	207.00	244.44	250.13	320.65	260.02	293.80
World Ex. US (1811)	203.92	-0.2	186.50	154.73	185.51	173.77	-0.1	1.96	204.25	186.11	156.38	184.66	174.00	212.89	176.84	185.76
World Ex. UK (2232)	258.31	-0.3	236.25	196.00	235.00	230.41	-0.3	1.60	259.03	236.03	198.32	234.19	231.11	262.59	211.16	212.63
World Ex. Japan (1951)	338.52	-0.5	309.61	256.86	307.97	329.77	-0.3	1.91	340.07	309.87	260.36	307.45	330.74	344.35	255.37	255.37
The World Index (2445)	264.68	-0.3	242.08	200.84	240.79	237.15	-0.2	1.77	265.40	241.83	203.19	239.94	237.75	268.47	216.05	218.05

 PLEASE NOTE: Amendments to indices for 10/10/97 applied to: Indonesia; related regional indices & the World Index. Market closed 13/10/97: Canada.

4 pm close October 13

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div.	Yld. %	P/E	Vol. 100s	High	Low	Close Quote	Chng. Prev. Close
[illegible]										

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

[illegible] yearly low. P/E price-earnings ratio. s[illegible] x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 10	Oct 9	Oct 8	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8045.21	8061.42	8095.06	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.15	104.29	104.43	104.70 (31/7)	101.99 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3284.20	3272.97	3268.43	3281.20 (7/10)	2222.07 (2/1)	3281.28 (7/10/97)	13.23 (8/7/32)
Utilities	240.23	239.25	240.81	245.82 (7/10)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 8091.38 (8127.72) Low 7981.96 (7980.87) (Theoretical¢)
Day's high 8059.45 (8094.08) Low 8002.73 (8002.73) (Actual¢)

Standard and Poors	Oct 10	Oct 9	Oct 8	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	966.98	970.62	973.84	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials¶	1130.88	1133.68	1137.28	1146.82 (7/10)	865.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial¶	114.72	116.02	116.50	118.04 (7/10)	80.75 (2/1)	118.04 (7/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	506.85	508.16	509.57	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	717.37	717.22	718.30	721.90 (7/10)	541.20 (28/4)	721.90 (7/10/97)	524.20 (16/7/98)
NASDAQ Cmp	1739.03	1745.85	1741.77	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	465.03	464.55	463.66	465.03 (10/10)	335.85 (25/4)	465.03 (10/10/97)	123.36 (7/12/93)

■ RATIOS

	Oct 10	Oct 3	Sep 26	Year ago
Dow Jones Ind. Div. Yield	1.68	1.66	1.68	2.16
	Oct 8	Oct 1	Sep 24	Year ago
S & P Ind. Div. yield	1.46	1.48	1.50	1.95
S & P Ind. P/E ratio	26.18	25.72	25.42	22.84

US DATA

■ MARKET ACTIVITY

● Volume (million)	Oct 10	Oct 9	Oct 8
NYSE	482.554	553.388	578.853
Amex	27.754	29.542	42.217
NASDAQ	721.176	795.947	801.195

NYSE	Oct 10	Oct 9	Oct 8
Issues Traded	3,386	3,381	3,408
Rises	1,313	1,166	889
Falls	1,519	1,713	1,937
Unchanged	554	502	472
New Highs	182	205	284
New Lows	18	19	17

■ NYSE TRADING ACTIVITY Volume : 500,680,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Banco Rio	11,263,700	16⅛	+1⅛
Wst Mangmnt	9,697,300	30⅛	-3⅛
Tower Rity	5,372,300	27¾	+1⅛
Ph Morris	5,247,100	41⅜	+⅛
Mellon Bk	4,883,700	62⅝	-2
La Quinta	4,261,900	18⅜	+⅜
Compaq	4,023,600	75⅜	+⅞
Call Realty	4,013,800	39⅞	
Stoneridge	3,943,800	20	+2½
Chrysler	3,728,300	35⅛	+1

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Graphic Inds	21⅜	+2⅞	+15.8
Stoneridge	20	+2½	+14.3
Dallas Semi	55	+6⅝	+13.6
Grdnr Denv	38⅜	+2¾	+7.7
Downs			
Int Rectifier	16⅜	-4⅞	-23.1
Wst Mngmnt	30⅛	-3⅛	-9.3
Millipore	46	-4	-8
Nwlld Expl	30⅛	-2⅜	-6.4

■ NASDAQ TRADING ACTIVITY Volume :721,176,000

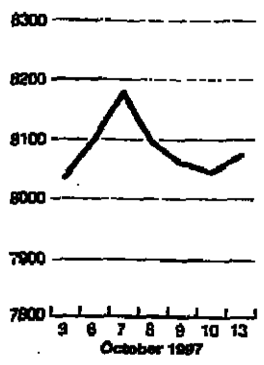
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Sygnet	26,132,100	5⅞	+1⅛
Sil T Lock	18,432,100	4⅜	+1⅜
Intel	9,923,300	93	-1⅞
Ascend	8,978,200	33⅛	+⅛
Jabil Crct	7,092,200	59⅜	-7⅛
Oracle	6,438,600	36⅛	-1⅜
Rational Sftw	5,861,700	9⅛	+⅜
USA Floral	5,151,400	20⅛	
Ponder Inds	4,838,800	1⅛	+⅛
Worldcom	4,358,400	36⅜	-⅜

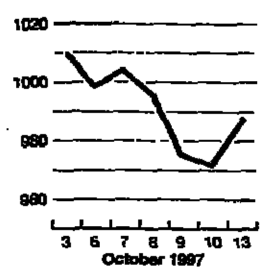
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Natl Research	22	+7	+46.7
Bird Pwr	61¼	+13⅛	+28.3
Horizons Fn	26	+5¼	+25.3
Wireless Clm	20⅜	+3⅜	+22.4
Downs			
ACT Mfl	19⅜	-9⅜	-31.7
Smrt Modular	72⅛	-12⅛	-14.9
Spire Crp	19⅛	-3⅛	-13.6
Oswego City	21	-3⅛	-13.4

Dow Jones



FTSE Eurotop 300



JAPAN

	Oct 13	Oct 10	Oct 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	17204.70	(c)	17376.92	20681.07	17204.70	38915.9	85.25

■ TOKYO TRADING ACTIVITY Volume : 328,000,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Sakura Bk	12,463,000	490	-40
Hanwa Co	7,438,000	213	-5
Nppn Steel	7,087,000	252	-9
Yamaichi Scs	6,120,000	265	+17
Bk of Tokyo	6,088,000	2030	-110
Kawasaki Stl	5,258,000	194	-13
Hitachi	4,462,000	1100	-10
Mitsubishi Hvy	3,983,000	648	+17
Sumitomo Bk	3,044,000	1720	-70
Dai-Ichi Bk	2,877,000	1090	-80

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Life Corp	708	+108	+18
Kokoku Stl	140	+20	+16.7
Marusho	115	+16	+16.2
Toho Store	268	+36	+15.5
Downs			
Koyo Iro Wks	150	-49	-24.6
Showa Kaiun	108	-34	-24.3
Snoko Match	172	-54	-23.9
Kojima	920	-200	-17.9

FRANCE

	Oct 13	Oct 10	Oct 9	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	3000.98	2955.11	2960.65	3094.01	2256.97	3094.01	984.61

■ PARIS TRADING ACTIVITY Volume : 316,721,230

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Worms	1,830,361	485	+26
BNP	1,677,052	316.5	+9.9
Axa-UAP	1,357,357	408	+6.5
GAN Grp	940,621	131	+8
Rhone-Plnc	833,729	265	+5
Lafarge	589,825	430.1	-3.2
Elf Aqtne	583,021	757	+20
Casno G-Perr	454,757	269	-3.5
Michelin B	449,689	358.9	+8
Soc Generale	425,270	900	+21

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Agrea	80	+10	+14.3
Sieco	212.7	+19.7	+10.2
Gel 2000	41.85	+3.85	+10.1
Monoprix	324.5	+29.5	+10
Downs			
Cipe France	190	-69	-26.4
MB Elect	575	-105	-15.4
Maxi Livres	36.1	-3.5	-8.8
Belvedere	680	-60	-8.1

GERMANY

	Oct 13	Oct 10	Oct 9	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4231.40	4168.52	4243.01	4438.93	2848.77	4438.93	931.18

■ FRANKFURT TRADING ACTIVITY Volume : 7,291,335

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Lufthansa	2,427,591	33.4	-0.4
Siemens	594,939	122.5	+2.2
D Telekom	526,273	33.9	+0.7
Deut. Bank	397,568	126.55	+3.55
Daimler-Benz	385,647	138.5	+2.2
Commerzbk	369,450	64.85	+0.75
Bayer	302,170	70.35	+0.25
BASF	280,369	64.32	+0.12
Veba	262,982	103.5	-1.1
Dresdner Bank	214,781	81.5	+0.2

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Babcock-BSH	121	+11	+10
Massa	179.5	+13.5	+8.1
Herlitz	185	+10	+5.7
Schneider Rd	355	+17	+5
Downs			
Fridri. Bolgen	450	-35	-7.2
Bowe Systec	58.5	-3	-4.9
Ser Systeme	104.9	-5.1	-4.6
Hochtief	82.2	-2.8	-3.3

UK

	Oct 13	Oct 10	Oct 9	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5300.1	5227.3	5217.6	5330.80	4056.60	5330.8	986.9

■ LONDON TRADING ACTIVITY Volume : 686,600,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
BAT Inds	22,974,620	609	+58
Redland	21,482,480	336½	+79
GRE	17,718,810	342	+17
Reed Int	15,082,040	629	+97
Rolls-Royce	11,923,790	236	+7½
BT	8,747,459	447	+2½
Tomkins	9,148,342	340½	+2
Guinness	9,048,224	605½	+28½
Pilkington	8,583,059	162½	+5½
Woolwich	8,182,198	321½	+4

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Peak	78½	+36½	+86.9
Alexanders	11	+3½	+46.7
Redland	336½	+79	+30.7
Reed Int	629	+97	+18.2
BAT Inds	609	+58	+10.5
Downs			
SupraspVR	123½	-15½	-11.1
ABI Leis	31	-3	-8.8
HighbidsLow	64½	-6	-8.5

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	978.50	981.50	+6.80	982.00	979.25	47,128	188,907
Mar	990.00	992.00	+8.50	992.00	990.00	181	3,508
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	17320.0	17210.0	-230.0	17320.0	17120.0	19,614	162,318
Mar	17230.0	17230.0	-160.0	17230.0	17230.0	1	7,810

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2985.0	3021.0	+68.0	3026.0	2981.0	11,653	32,790
Nov	2993.0	3029.0	+73.0	3029.0	2993.0	1,630	9,609
■ DAX							
Dec	4213.0	4249.0	+66.0	4261.5	4207.5	12,996	61,900
Mar	4250.5	4287.5	+73.0	4297.5	4250.5	49	2,994

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2598.00	2582.00	+13.50	2615.00	2582.00	2,899	25,436
■ SOFFEX							
Oct	5751.0	5800.0	+93.0	5803.0	5751.0	4,488	23,581
Nov	5800.0	5809.4	+95.0	5800.0	5781.0	1,102	1,997

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Oct 13	Oct 10	Oct 9	1997 High	1997 Low	Yield	P/E
Argentina	General	(u) 24712.25	24903.60	28277.98 7/10		18237.37 2/1	2.99	20.7
Australia	All Ordinaries	2663.3	2694.5	2722.2	2779.20 25/8	2352.20 1/4	3.38	19.3
	All Mining	765.8	770.1	781.7	987.10 24/2	755.10 18/9		
Extended falls over 3 sessions to 3.8 per cent as bonds continued to weaken and investors held cash for Telstra float.								
Hungary	Bux	7668.40	7660.61	7646.95	8483.66 5/8	4291.30 6/1	na	na
Market boosted by dollar strength but turnover low.								
India	BSE Sens.	4066.05	4057.37	3979.96	4548.02 5/8	3225.24 2/1		
	Crisil 500	740.47	737.58	730.35	843.28 5/8	622.71 2/1	na	na
Stocks closed higher on foreign purchases and hopes of market reform.								
Poland	WIG	17592.7	17488.4	17414.1	18339.40 18/2	14421.60 6/1	1.35	12.2
Oversubscription in privatisation offering of PBK bank helped market to rise slightly.								
Portugal	BVL 30	3587.84	3578.17	3605.10	3698.81 3/10	2165.57 2/1	1.56	25.8
	PSI 20	8361.90	8339.89	8409.19	8603.52 3/10	5192.34 2/1		
Shares rose on European merger activity but turnover thin.								

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 13

[illegible]

AMEX PRICES

4 pm close October 13

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.875		2000	8.25	2.875	Lernout & Hauspie	US$57.5	+2	30888	58.625	25
Artwork Systems	US$10.5	+0.75	103690	11.125	7.875	Melexis	US$8	-0.375	389450	9.125	8
Chemunex	FFr12.5		21500	18	10	Mercer Int'l	US$11.125	+0.25	0	11.75	8.125
Dobonair Holdings	GBP5.4	+0.15	99900	7.15	4.5	NTL	US$26.5	+0.375	5000	27.5	20.5
Dr Solomon's ADS	US$31	+3.375	12850	31.875	16.875	Pixtech	US$3.5	+0.125	5400	6.125	3.375
EDAP TMS	US$8.1875	-0.125	1000	8.125	6.5	Schoeller-Bleckmann	Sch1620		510	1892	900
Espace Prod. Int	FFr112.13	+0.08	1750	117	111.88	Topcall Int'l	Sch4605	+90	1374	5000	3065
Esprit Telecom ADS	US$5.75	+0.125	0	12.25	5.375	Turbodyne Technol.	US$5.13	+0.03	0	8.25	3.73
Innogenetics	US$14.375	+0.375	245322	14.375	9.875						

Prices for 13/10/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel 44-171 / 489 6660).

FINANCIAL TIMES Tuesday October 14 1997

'Merger mania' sweeps European markets

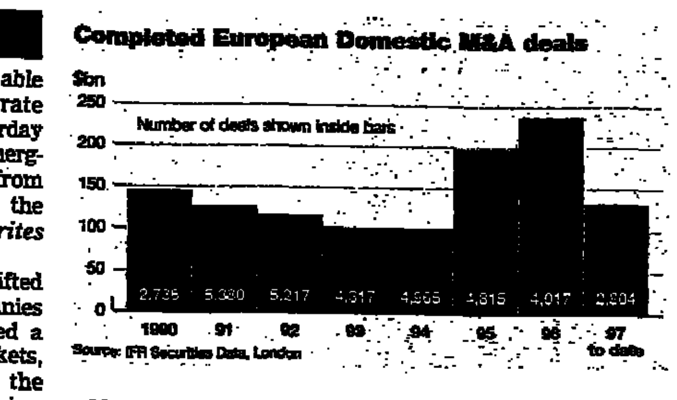
WORLD OVERVIEW

European markets were able to put their interest rate worries to one side yesterday as a wave of bids and mergers, involving stocks from Finland to Italy, swept the corporate sector, *writes Philip Coggan.*

The deals not only lifted the stocks of the companies concerned but prompted a rally in the broader markets, as traders anticipated the "merger mania" being extended to other groups.

Given the high level of European equity markets, it was no surprise that most of the deals were in the form of paper offers.

Completed European Domestic M&A deals



Source: IFR Securities Data, London

Much of the action – the mergers between Zurich Group and BAT's insurance interests, and between Sweden's Nordbanken and Finland's Merita, and the hostile offer from Italy's Generali for France's AGF – was in the financial sector.

Mike Young, director of European investment strategy at Goldman Sachs, said: "We are seeing a rush to the gate in recognition that the advent of the euro is reducing some of the barriers to cross-border competition in banking and finance."

"It will also result in some revenue losses," he added, "such as forex trading and a decline in the number of corporate banking relationships. Meanwhile, asset management has been identified by everyone in the bank and insurance sector as a growth activity."

Merger activity, thinks Mr Young, is far from its peak. "As the list of announcements increases, the pressure on the rest of the sector to do a deal will build."

But as well as the financial deals, the markets also witnessed a merger between publishing groups Reed Elsevier and Wolters Kluwer and a hostile bid for UK building materials company Redland from the French cement group Lafarge.

The mergers reinforced the theme of corporate restructuring which has been a key bullish argument for European markets in recent years. "It is a necessity for European industry to boost its competitiveness and improve its return on capital," said Francois Langlade-Demoyen, European equity strategist at Credit Suisse First Boston.

But it may also mark a new phase. Ian Harnett, director of European strategy at NatWest Markets, said companies may have reached the limits of the scope for internal restructuring and so are now looking externally.

Meanwhile, the latest Merrill Lynch/Gallup survey of UK fund managers found they were at last losing their taste for Japan and the Pacific Basin and moving back into the US market.

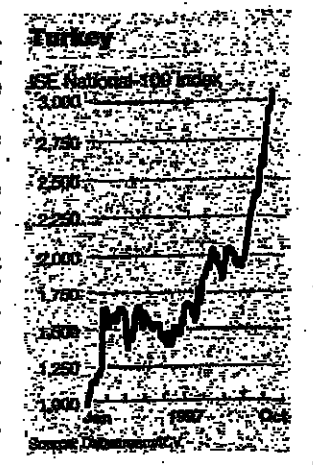
Buyers of Wall Street outnumbered sellers for the first time in three years, whereas the attitude towards Asia was the most negative since 1990.

London market, Page 36

EMERGING MARKET FOCUS

Soaring Turkey puzzles brokers

There was cheering in Istanbul trading rooms yesterday afternoon as the stock exchange's IMKB index burst through the 3,000 barrier.



Although brokers love "psychologically important" events such as these, some admit they are not entirely sure what is going on. The Istanbul market has risen by nearly half in dollar terms in just over a month, but Mehmet Sami, vice-president of Istanbul's ATA Securities, said: "It is puzzling a lot of people."

Volkan Sari, market strategist at Global Securities, a big Istanbul-based brokerage, said "there was no news" justifying yesterday's surge beyond a wider perception that something is changing in Turkey. There has been little economic news, but an inflow of foreign funds and proprietary trading by institutions seems to be driven by a political story.

Mr Sami, like many in Istanbul, has sensed an important political shift with the appointment of a secularist, conservative-led coalition that seems determined to stay in power and attempt major economic reforms that have eluded governments for more than a decade. Important announcements on privatisation, financial markets and public sector reform are rumoured to be in the pipeline.

Furthermore, Turkey is awash with liquidity as fund managers stung by the debacle in south-east Asia look for other high-yielding emerging markets.

Some point out that the market has bought – or rather, brokerages have sold – similar stories in the past. Only last year, financial markets picked up with the appointment of a government led by Turkey's Islamist Welfare party, only to see that coalition peter out eight months later having achieved little. Salih Neftçi, a columnist with the mass-circulation newspaper Hürriyet, said: "Whenever there is some good news in Turkey, prices rise abnormally. When there is bad news there is an opposite reaction."

Until September, Turkey had a surfeit of bad news. The Islamist government fell in June after a confrontation with the military. The new government of Mesut Yilmaz seemed weak and indecisive. Inflation and interest rates rose. Yet Mr Yilmaz has impressed markets that he is serious about pushing privatisation and public sector reform.

Last week he said he would stay in office until 2000 by when he will have cut inflation from 90 per cent to 3 per cent. Markets had expected him to call elections soon, with the risk he would opt for a populist free-for-all to win votes.

Some international fund managers have shunned Turkey for being too expensive. Favourites such as banks and blue chips look prohibitively overpriced. But brokers claim the market is unlikely to crash, although a minor correction is possible before the end of the year. Brokers say prices will resume their upward spiral in 1998, by when the government should have started delivering on its promises.

John Barham

Dow climbs on earnings buoyancy

AMERICAS

Wall Street shrugged off last week's inflation fears and traded higher as the quarterly earnings reporting season got under way, *writes John Labate in New York.*

By 1 pm, the Dow Jones Industrial Average was up 37.82 at 8,083.03. The Standard & Poor's 500 index also rose, up 2.16 at 969.14. Technology stocks were mixed as the Nasdaq composite index gained 4.08 at 1,743.11. Small company stocks were modestly higher as the Russell 2000 index gained less than a point at 465.63.

Last week's markets got a double-dose of inflation jitters, sparked first by mid-week testimony about wage pressures by Fed chairman Alan Greenspan, and subsequently by a stronger-than-expected 0.5 per cent rise in September producer prices.

Yesterday's markets were more focused on corporate earnings and merger reports. Helping the Dow higher was Travelers Group, the financial services company, which rose $1 1/16 at $75 1/16 after reporting a sharp rise in operating earnings for the quarter. Banker J. P. Morgan also reported a 43 per cent rise in net income for the quarter and its shares rose $1 1/16 at $120⅝. Other firms reported as well. Donaldson, Lufkin & Jenrette rose $1¾ at $77¼ after reporting higher earnings. The Treasury market was closed in observance of Columbus Day, and stock exchange volume was light.

News of a possible $36.5bn merger between UK tobacco company BAT and the Swiss insurer, Zurich Group, sent BAT's ADR shares nearly 10 per cent higher to $20.

Shares in Coca-Cola were down $¼ to $61 7/16 on reports that its chief executive had been placed in intensive care in his fight against cancer.

Technology stocks moved slightly higher as the Pacific Stock Exchange technology index gained less than 2 points at 347.54. Texas Instruments rose $2⅝ to $141 on reports that the company had developed a new chip technology. Rival Intel drifted $1 lower at $92 in anticipation of a quarterly earnings report. Software leader Microsoft gained $½ at $137 as it released figures on its internet business.

● Toronto was closed for a public holiday.

Bourses surge on bid activity

EUROPE

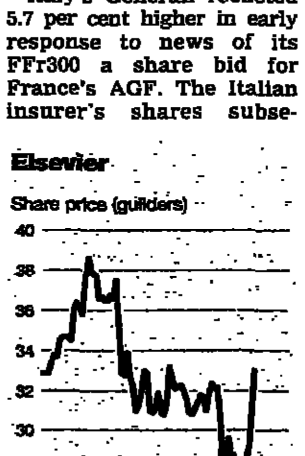
Europe's leading equity markets moved sharply ahead on a broad front during a day of unprecedented takeover activity.

In the Netherlands, Elsevier and Wolters Kluwer produced the most dazzling stock market action. Their plans to merge into the world's biggest professional publisher sent the former up Fl 4.70 or 16.6 per cent to Fl 33.10 and Kluwer Fl 10.70 or 4.2 per cent higher to Fl 265.70.

The two sets of shares racked up a combined volume of 26.4m shares to account for a large part of the day's business in Amsterdam. "It's a magical fit with positive implications for costs savings and synergy," said one broker.

Italy's Generali rocketed 5.7 per cent higher in early response to news of its FFr300 a share bid for France's AGF. The Italian insurer's shares subsequently came off their best levels to close with a rise of L1,589 at L38,300. Many analysts believed that yesterday's bid was only an opening shot by Generali and that a successful bid might have to be nearer to FFr400 a share.

Elsevier



Source: Datastream/ICV

Generali's bid approach to AGF did nothing to ruffle sentiment at financial conglomerate Worms, currently subject to two competing takeover bids, one from Artemis of France and the other from Ifil-AGF, an Italo-French combination.

Market talk suggested that the Generali move on AGF was sparked by the approach to Worms. The latter, which stood at FFr331 at the end of August, rose FFr26 to FFr485.

Nordbank of Sweden's link with Merita of Finland sent both shares steeply ahead, and sparked heavy buying of financials in neighbouring Denmark and Finland where sector consolidation has been a hot theme all year.

FTSE Actuaries Share Indices — European series

October 13

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	987.67	+1.64	+15.91	2.23	0.03	992.09
FTSE Eurotop 100	2301.76	+1.36	+30.80	-	-	-
FTSE Eurotop 300 Regions						
300 UK	989.27	+1.71	+16.62	3.08	0.00	987.89
300 Ex-UK	987.47	+1.60	+15.51	1.75	0.04	989.52
300 Eurobloc	984.91	+1.52	+14.71	1.94	0.06	987.95
300 Ex-Eurobloc	990.49	+1.56	+15.23	2.44	0.00	995.93
FTSE Eurotop 300 Economic Groups						
Resources	1008.82	+1.60	+15.91	2.68	0.00	1021.19
General Industries	1009.96	+0.73	+7.29	1.93	0.00	1011.33
Consumer Goods	943.21	+1.50	+13.98	1.89	0.00	946.22
Services	992.88	+2.50	+24.17	2.17	0.11	997.14
Utilities	966.18	+1.43	+13.63	3.16	0.00	971.70
Financials	999.04	+1.99	+19.54	2.23	0.05	1003.42

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved.

Nordbank, number three in the Swedish bank league, ended off SKr5.50 to SKr274 while Merita, the largest bank in Finland, rose FMk2.90 to FMk28.10. In Denmark, BG Bank soared DKr31 to DKr421 while rivals Jyske Bank and Unidanmark gained DKr12 to DKr680 and DKr22 to DKr460 respectively.

The Pohjola and Sampo insurance groups of Finland also bounced. Merita owns 15.9 per cent of Pohjola and 18.5 per cent of Sampo. Pohjola rose FM19.50 to FM209.50 and Sampo FM50 to FM650.

In Switzerland, Zurich Group, widely seen as having the most to gain from a £23bn link-up with the financial services activities of Britain's BAT Industries, rushed to a high of SFr645 on news of the merger plan which would create one of the world's largest insurance groups. But in later trade the Zurich shares settled SFr42 higher on the day at SFr641.

PARIS made solid gains in thin volume with banks responding warmly to the upsurge in consolidation talk across Europe. The CAC 40 index ended up 45.87 at 3,000.98.

CCF rose FFr21.20 or 6.3 per cent to FFr360, BNP FFr9.90 to FFr315.5 and Bancaire FFr20 to FFr751.

Paribas put on FFr10.60 to FFr437.60 and Société Générale FFr21 to FFr900.

LVMH added FFr25.00 to FFr1,248 following the end to hostilities with Grand Metropolitan and Guinness of the UK. Motor stocks stood out against the upbeat mood. Renault fell FFr4.10 to FFr169.10 and Valeo FFr1.50 to FFr383.50.

AMSTERDAM climbed 30.43 to 938.22 on the AEX index. Publishers provided the main thrust but there was plenty of support from heavyweights like the financials and Royal Dutch and Unilever. Aegon rose Fl 8.50 or 5.3 per cent to Fl 169.50 and ABN Amro Fl 1.90 to Fl 41.90. Royal Dutch put on Fl 2.90 at Fl 113.50 and Unilever gained Fl 2.50 to Fl 109.20. Among smaller caps, Oce improved a further Fl 6.00 to Fl 256 ahead of today's third-quarter results.

ZURICH was thinly traded, with the exception of Zurich Group, and the SMI index rose 93.3 to 5,792.8.

The financial sector was in demand. UBS jumped SFr63 to SFr1,702 and Winterthur rose SFr71 to SFr1,591. Baloise, up SFr85 at SFr2,320, has been seen for some time as a takeover candidate.

FRANFURT finished post-bourse electronic trade above the 4,200 points level, although off its highs. The Ibis-indicated Dax index closed 60.65 higher at 4,225.27.

Lufthansa, 15 pfg down at DM33.40, was actively traded in response to Sunday's news of the DM33.30 issue price of shares in the sale of Bonn's remaining stake.

Siemens picked up DM2.65 to DM122.60 after the company's weekend announcement that it had achieved turnover of more than DM100bn for the year ended September 30 for the first time.

MILAN derived support as much from politics as corporate activity. The revival of dialogue between Romano Prodi, the prime minister, and Fausto Bertinotti, the hard left leader, raised hopes that a compromise might be thrashed out to revive the centre-left government. However, many analysts ruled out the prospect of an early general election. The real-time Mibtel index added 432 to 15,681.

The news from Generali sent the rest of the financial sector higher. Credito Italiano rose L315 to L4,498 and Mediobanca, which has a 6 per cent stake in Generali, was L1,810 higher at L38,521. Banco di Napoli savings shares were marked L86 higher to L1,481.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

São Paulo slips back

Latin American centres opened quietly with the closure of US bond and currency markets making for subdued trading.

SAO PAULO shaded lower in thin volume with some dealers reporting modest profit-taking after last week's near 2 per cent gain for the Bovespa index. At midsession yesterday, the Bovespa was 91 lower at 12,647. "The market is very quiet this morning. There is nothing out there. It looks like we are on hold until tomorrow," said one trader.

MEXICO CITY was 24.61 lower to 5,242.66 on the IPC index at the close of a thinly attended morning session.

The broad market was described by dealers as fairly positive, but volume was reduced to nominal levels. Conglomerate Grupo Carso added R$0.20 to R$61.40.

SANTIAGO was quiet ahead of today's board meeting at Enersis which recently forged links with Endesa of Spain. The IPSA index was off 0.14 at 124.05 at midsession. Enersis eased 1.00 peso to 282 pesos.

Golds dominate S Africa

A spillover of buying in the futures market and the bullish start on Wall Street pulled Johannesburg to a higher finish after a day dominated by gold shares following the merger of the Gencor and Gold Fields gold operations into a new company, Goldco.

Gains in London helped to dispel worries among some investors of volatile trading in the week which marks the anniversary of the US market's 1987 crash.

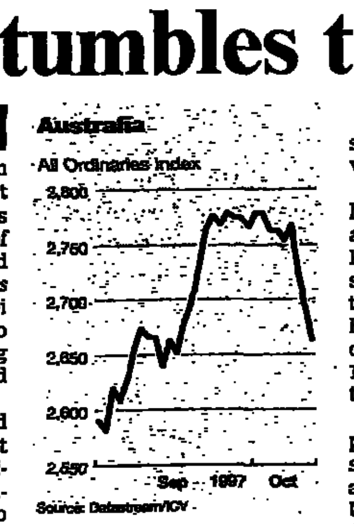
The overall index added 59.5 to 7,297.1, industrial jumped 65.5 to 8,843.5 and golds added 8.2 to 1,065.1.

Tokyo tumbles to 26-month low

ASIA PACIFIC

TOKYO fell 1 per cent in thin trading to its lowest close since August 1995 as investors hesitated ahead of next week's widely expected economic measures, *writes Gwen Robinson.* The Nikkei 225 average fell 172.22 to 17,204.70 after moving between 17,151.75 and 17,318.38.

Australia



Source: Datastream/ICV

New York's decline and the rise of the yen against the dollar weighed on sentiment from the outset of trading as investors moved to sell blue-chip exporters. Heavy selling of banking issues by domestic and foreign investors also dragged on the market.

Much of the bank sell-off among Japanese corporate investors was due to their renewed attempts to unwind cross-shareholdings. Analysts warned that any disappointments over the government's forthcoming economic package could cause a further slide in the market.

Volume fell to an estimated 328m shares from Thursday's 397m. Declines overwhelmed advances 827 to 300 with 130 unchanged. The Topix index of all first-section stocks shed 21.77 to 1,338.47 and the capital-weighted Nikkei 300 was down 4.45 at 265.09.

In London, the ISE/Nikkei 50 index rose 6.62 to 1,577.49.

Sakura Bank, the day's most active issue, rewrote its low for the year, falling Y40 to Y490 after earlier reaching Y488. Dai-Ichi Kangyo Bank also hit an new intra-day low of Y1,080 before finishing at Y1,090, down Y80. Bank of Tokyo-Mitsubishi came off Y110 to Y2,030 and Daiwa Bank Y68 to Y460. Leading exporters mostly retreated. Nissan fell Y10 to Y665 and Honda Y80 to Y4,240.

In Osaka, the OSE average shed 204.58 to 17,692.62 and volume fell to 8.4m shares.

HONG KONG was sharply lower in spite of a strong afternoon rebound and brokers said they saw the index stabilising at current key technical support levels. The Hang Seng index lost 200.22 or 1.4 per cent lower at 14,072.90 after bouncing off the day's low of 13,886.64.

Analysts said the slide was prompted by concern over shrinking market liquidity and the possibility of higher US and local interest rates. Turnover, however, was a low HK$13.4bn.

SYDNEY continued to suffer from interest rate worries. The All Ordinaries index fell 31.2 to 2,663.3 to extend its decline over the past three sessions to 3.8 per cent.

Banks stayed weak. ANZ came off 20 cents to A$10.60 and NAB 27 cents to A$20.28. Coca-Cola Amatil fell 57 cents to A$12.70. Retailer Coles Myer bucked the broad downtrend, adding a further 10 cents at A$6.68 following last week's strong results.

JAKARTA rallied in late trading to close little changed. The composite index fell more than 1 per cent at the outset following a debt downgrade by Standard & Poor's and a widely quoted press report suggesting that the IMF rescue package under consideration would need to be $12bn rather than the presently mooted $4bn. The index ended 0.07 higher at 534.83.

SEOUL was dragged down by renewed concerns about Korea's troubled economy and by political mudslinging surrounding the forthcoming presidential elections. The composite index fell 7.23 to 613.00 in the second lowest volume of the year.

Kia Motors, part of the struggling Kia group, took centre stage as news reports said creditors were about to force the company into receivership. In spite of denials from some of Kia's larger lenders, the shares dropped 500 won to 7200 won.

SINGAPORE was weak as investors adopted a wait-and-see line on a host of currency, interest rate and international issues. The Straits Times Industrials Index ended down 23.55 at 1,877.69, retracing most the 39-point gain made in late trade on Friday.